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IMPORT SUBSTITUTION OF WEST MALAYSIA,

WITH SPECIAL REFERENCE TO
RUBBER PRODUCTION MANUFACTURING INDUSTRIES AND
TRANSPORTATION EQUIPMENT MANUFACTURING INDUSTRIES

by

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PREFACE

The increasing importance of industrialization in underdeveloped countries can be seen from the fact that it has been included in the development plans of most of these countries. This is the situation in West Malaysia too.

An attempt is being made in this academic exercise to study the growth of industrialization in West Malaysia, and especially to analyse the extent of industrialization through import substitution with special reference to the manufacturing industries of rubber products and transport equipment. The many factors that had prevented an earlier establishment of the industrial sector, and the industrial policy of the government which resulted in the provision of incentives and facilities to promote industrial investment through private enterprise, have been examined too.

In a study of this kind, the availability of statistical data and information is most important. The scarcity of data especially for transport equipment has hampered a more thorough analysis of this industry in order to find out the extent of import substitution that has been attained. Due to the relatively recent development of the capital-intensive manufacturing industry of transport equipment, the conclusions made about import substitution should be regarded as tentative, as they are projections of current trends.

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CHAPTER I

INTRODUCTION

This is a study of import substitution of West Malaysia with special reference to the manufacturing industries of rubber production and transportation equipment. Import substitution has been much discussed in recent years and industrialization through import substitution has been included in the development plans of most developing countries. West Malaysia, is no exception. Import substitution has been included in the First Malaysia Plan 1966-1970, and recently the Government has laid greater stress on industrialization through import substitution.

The Objective of the Study

The importance of industrialization to a developing country like West Malaysia cannot be over emphasized. The main objective of the study is to find out the extent of import substitution in West Malaysia, referring specifically to manufactured rubber products and transport equipment.

Rubber products have been manufactured in West Malaysia even before the independence of Malaya in 1957. The manufacturing industries of rubber products are, therefore, relatively well-established, even though the World Bank Report of 1955[1] had stated that id did not consider West Malaysia as being a potential centre of manufactured rubber products as these industries should be established near the centres of consumption. On the other hand, the manufacture of transport equipment is relatively new here, infact, West Malaysia has just started on the assembly of motor vehicles, which is the first stage of the progressive manufacturing industry of transport equipment.

Moreover, in launching an industrialization programme especially by a predominantly agricultural economy which is export-oriented, depending almost completely on the import of manufactured goods, certain problems are encountered. The study will show some of the problems which challenged the industrialization programme and why the industrial sector was neglected. An attempt is made to find out why there is this sudden emphasis on industrialization since independence in 1957 and how the many obstacles are overcome.

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[1] International Bank for Reconstruction and Development Report (1955) Economic Development of Malaya.

In the study an effort has also been made to relate this study to the industrialization policy of West Malaysia, particularly with reference to the various incentives provided to encourage local and foreign investment in the economy.

The Scope of The Study

The study covers import substitution in West Malaysia and not for the whole of Malaysia. This is because the manufacturing sector in East Malaysia is as yet negligible.

In addition, the study refers specially to manufacturing industries of rubber products and transport equipment only.

It has been the author's aim to limit the study to the first seven years of this decade, that is, from 1960 to 1966. For the most part, this has been the case, but, at certain places it has not been possible to stick strictly to this period. Where the rubber products manufacturing industries are concerned, the analysis covers the period since independence, from 1957 to 1966. This is because the relevant statistics are available. In the case of transport equipment only the period 1960 to 1966 is covered because it is not necessary to go back much further as the industry is only in its infant stage now and before 1960 we depended entirely on the import of transport equipment. The assembly of motor vehicles and bicycles has only been established in West Malaysia in 1967 and 1968. Therefore for transport equipment the analysis will try to include the recent developments in this particular industry.

A brief outline of the concept and definition of import substitution is given in Chapter II so as to introduce the subject of import substitution in West Malaysia. The purposes of import substitution are related to those of West Malaysia for industrialization through import substitution. The measurements of import substitution are also dealt with and also the particular measurement that is being adopted in this study.

Chapter III surveys import substitution in West Malaysia in general. Here, the problems that prevented the earlier establishment of the manufacturing sector are evaluated so as to show why this sector has been neglected and why the growth in this direction has been so slow previously. An attempt is made to give a general survey of the growth of import substitution in West Malaysia in this decade. The many facilities and incentives for promoting investment and import substitution are also given, thus showing the policy of the Government towards industrialization which is one of promotional rather than an aggressive one by directly participating in the development of the manufacturing industry.

Rubber products manufacturing industries have been analysed in Chapter IV. An analysis of this industry is given to find out the extent of import substitution for the whole industry from 1960 to 1966. A more detailed study of the extent of import substitution for the more....

important manufactured rubber products is attempted. The export possibilities of these products have also been considered.

In Chapter V, an analysis of the transport equipment manufacturing industry has been made. An effort is made to analyse the major products in this industry and to find out whether import substitution has occurred or not. As transport equipment is a very important item in the field of manufacturing an attempt is made to see how the establishment of the assembly of motor vehicles industry will affect the industrialisation of West Malaysia.

The final chapter provides a critique of the policy of the Government with regard to industrialisation. This is because the extent of growth in the industrial sector depends on the policy of the Government. The tariff structure and policy of West Malaysia before and since independence are examined in the light of the industrialisation policy of the Government. Lastly, a brief outline has been made to show how regional co-operation can help to expand industrial development in West Malaysia and in her neighbouring nations.

Limitations and Difficulties

A good study of import substitution of West Malaysia with special reference to rubber products and transportation equipment manufacturing industries can be made when all the statistical data and information are available.

The statistical data utilised in this study depends entirely on published materials of the Department of Statistics of Malaysia. On the whole, the relevant data and information on the rubber product manufactures are relatively abundant and complete so that a more detailed analysis of import substitution for these goods can be made as both domestic production figures and import data are available. It is, therefore, not necessary to approach the numerous establishments individually. The same cannot be said for transport equipment.

With respect to transport equipment, the import figures are there but not the corresponding domestic production figures so that it is not possible to find out whether "real" import substitution has been achieved. The transport equipment manufacturing industries include the parts and accessories of these transport vehicles and not the engine or other important parts. The assembly of transport vehicles, such as passenger cars, commercial vehicles, motor scooters and even bicycles, have only been established as recently as 1967 and 1968. Therefore, it is not possible to obtain any published data on these products and much has to rely on whatever facts and figures published in the daily newspaper. Thus, any statements made on import substitution will have to be regarded as tentative as they are based on current patterns of production and consumption, the period of time involved is too short, and there is the lack of statistical data.

Until the assembly of motor vehicles and bicycles are more developed and with it the development of ancilliary industries .....

producing the component parts, we cannot point out positively that there is import substitution even when we know that changes are taking place towards this direction.

For products such as ships and boats, there is little information on the local industry. Statistical and other informations have been withheld because of the secrecy requirements of these industries, for under these requirements details of sales by commodities cannot be published without violating them. Thus, there is a lack of data because they are considered confidential and cannot be made known to the public.

Because of the difficulty of obtaining data from the individual establishments which are not willing to co-operate, the statistical data and other information have to be limited to Government sources.

CHAPTER II

CONCEPT AND DEFINITION OF IMPORT SUBSTITUTION

Many underdeveloped countries having once achieved political independence tried to break away from the former colonial system by aiming for economic independence through industrialization. To them, industrialization is the solution to the nation's economic ills such as, high levels of unemployment, disguised unemployment, fluctuating nature of the economy because of the country's dependence on the export of one or two primary products, rural poverty, and especially a chronic deficit in the balance of payments which plagues almost all of them.

Industrialization could help bring about greater stability to the economy so that these primary-producing countries would become less vulnerable to fluctuations in the world market. Moreover, new and varied employment opportunities would be created so that unemployment and disguised unemployment would be reduced if not completely eliminated. The most obvious step taken towards industrialization would be through import substitution for these underdeveloped countries consume a wide variety of manufactured consumer goods which are almost all imported.

Definition and Concept of Import Substitution

What is "import substitution"? Much has been written about it in recent years and it has been closely linked with industrialization, but, the most obvious similarity between them is the improvement of per capita income as a result of economic development. However, it should be noted that "import substitution" is but a means of attaining industrialization.

It is widely accepted that "import substitution" means "the domestic production of that which would otherwise have been imported".[1] However, this does not mean that any increase in domestic production will automatically bring about a corresponding decrease in imports. If this were so, import substitution will merely mean the replacement of goods and services that were formerly imported by domestically produced goods and services. Such a situation would only happen in a static economy with constant population and income growth and an unchanging demand pattern. We are dealing with a dynamic economy such as that of West Malaysia, where the population is expanding at a rather rapid rate, income is changing and as a result tastes and consumption patterns change too. This simple measurement of import substitution will be inadequate in this case. What is needed is a more precise definition and measurement of import substitution which takes into consideration such secular gactors as population growth together with income generation implicit in developmental

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[1] Dr. Gordon C. Winston: "Note on the Concept of Import Substitution." Pakistan Development Review, Spring 1967, page 107.

investment. Here, import substitution will mean more than the mere replacement of former imports by domestic goods. Moreover, 'real' import substitution can in fact take place without there being any apparent decline in imports. Imports can be increasing at the same time as domestic production is expanding, but so long as the percentage of imports to total supply is decreasing and the growing domestic consumption is being more than proportionally covered by domestic production then there is said to be import substitution.

The process of import substitution should be viewed as a dynamic one, for it takes into consideration changes in technology, domestic demand, and the demand of the rest of the world, over the passage of time. The nature of the country's dependence on the external sector will undergo a distinct change. A policy of import substitution will begin in the easiest area - the development of consumer goods - oriented industries - this is partly due to the presence of a ready market for such goods, and partly to the fact that such industries require less capital investment, and less skilled labour (both of which are scarce in underdeveloped economies). However, the process of import substitution will not stop at the replacement of imports by domestic products for ultimately if domestic production were efficient, export markets will be developed. This means that as a result of import substitution goods that were formerly imported were replaced by locally produced ones and this might eventually lead to the export of such goods.

The definition of import substitution - "the domestic production of that which would otherwise have been imported" - should not be taken only to mean the reduction or replacement of imports by locally produced products. It should be borne in mind that the aim of import substitution is not intended to reduce the overall import quantity, should such a reduction occur, because of the effects of quantitative restrictions and tariffs which are imposed so that the domestic industry may survive and expand. Moreover, as a result of import substitution, the import of final consumer goods may be reduced, but import will show an increase in the amount of intermediate and capital goods which are required for the production of these final consumer goods. Thus, even though for specific commodities imports may be reduced because of domestic production of such goods and also because of import restrictions and controls the overall import of the economy may indicate an increase.

This is the view adopted by Chenery[2] who sees import substitution as a cause of economic growth. His study refers to import substitution as a change in the country's pattern of imports brought about by changes in comparative advantage. The pattern of demand and imports will change because the usual import substitution policy is to start off by producing final consumer goods. This will lead to a shift from the import of consumer goods to goods at progressively "earlier" stages of production in order to facilitate the domestic production of these final consumer goods. To both Chenery and Kindleberger[3], this change in the pattern....

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[2] Chenery, Hollis B. "Patterns of Industrial Growth" American Economic Review, September 1960, page 624-654.

[3] Kindleberger, Charles, "International Economics", Homewood, Illinois: Richard D. Irwin, 1953.

of demand and imports is the most important aspect of import substitution, for this will bring about a change in relative factor endowments, labour skills will be increased and improved, and there will be economies of scale resulting from expanding incomes. The pattern of imports changes systematically not only because imports increasingly consist of goods that are less highly processed but also because as old imports are progressively being produced domestically, new products are being imported as tastes and preferences change.

Import substitution is, therefore, a process of "moving back"[4] in production stages in imports, or as it has sometimes been referred to as "backward integration"[5]. That is to say, final consumer goods are produced domestically, while the essential materials are being imported, and this process gradually moves backward to the original raw materials. To illustrate, let us take the production of aluminium containers. These containers were made out of aluminium slugs which were first imported. When demand for these containers was sufficiently high aluminium sheets were imported to make these slugs locally. Still later, the country would decide to establish large rolling mills to produce aluminium sheets out of imported aluminium ingots. This would be the final process assuming that this particular country did not possess aluminium mines. This is the import substitution policy which West Malaysia has adopted so as to accelerate industrialization.

When an import competing industry is established the "domestic absorption frequently exceeds what would have been absorbed or demanded if the commodity had continued to be imported"[6]. This is contrary to the widely beleived but, to Khan[7], incorrect proposition, that any increase in domestic output of an import-competing industry represents import substitution for in its absence it would be necessary to maintain the same availabilities by imports. According to Khan what really happens is that, with the establishment of an import-competing industry domestic absorption would be 'liberalised'[8]. A high degree of protection has to be given to import-competing industries and this has induced a contentration of investment in these protected industries. Once these import substitution industries have been undertaken efforts would be made to induce domestic consumption through sales promotion, and to keep taxes and other constraints..

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[4] Dr. Gordon C. Winston, op.cit., page 109.

[5] Dr. Lim Swee Aun - in an article in The Asia Magazine, Aug 29, 1965

[6] Khan, A.R. "Import Substitution, Import Expansion and Consumption Liberalization: A Preliminary Report" Pakistan Development Review, Volume III, No.2 Summer 1963, page 208-209.

[7] Ibid. page 208-223

[8] Ibid. page 208-209.

on the consumption of these goods at a minimum. In an economy which depends utterly on the importation of manufactured goods, "so long as consumer goods must be imported the extreme scarcity of foreign exchange acts as an effective constraint to the expansion of consumption. Once consumer goods industries have been established domestically, the discipline enforced by the supply of foreign exchange is to some extent removed. As the indigenrous production of consumer goods increases, consumption is 'liberalised' and savings do not increase as quickly as they otherwise might"[9]. Domestic absorption of import substituting goods is likely to grow at a much faster rate than that for other goods because of the inducements through sales promotion effort, high tariffs and import quotas on competing imports and low taxes or even exemption from taxes on domestic output at the initial stage. Investment will be concentrated on these protected industries for in addition to the above incentives, tariffs on imported capital and industrial imports required by the import competing industries are low. Economic growth will be retarded for resources are diverted from the production of investment goods and ultimately, the rate of growth in real income will be lower when import substitution in consumer goods is undertaken.[10] Import replacement by domestic production of imported consumer goods can only effectively contribute to growth if consumption is constrained.

Another danger of import substitution is pointed out by Johnson[11], who wrote that "the excess cost of import substitution may be high, appreciably higher than is implied by the tariff rates or the excess of domestic over foreign prices. Progressive import substitution could, thereofre, easily absorb or more than absorb the potential increase in real income that would normally accrue from technical improvements and capital accumulation, and permit a country to accumulate capital at a substantial rate without achieving a significant increase in real income or in real income per head." The establishment of such high cost industries which may be so inefficient and which can only survive behind a high tariff wall, may be such that the amount of protection provided to them is greater than their contribution in terms of value added.

The Purpose of Import Substitution

There are many reasons why countries adopt import substitution policies. Two factors[12] which make import substitution a particularly ..

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9 Soligo, Ronald and Stern, Joesph J. "Tariff Protection, Import Substitution and Investment Efficiency", Pakistan Development Review, Vol. V Summer 1965, No. 2, page 251.

10 Ibid.

11 Johnson, Harry G. "Tariffs and Economic Development", Journal of Development Studies, Oct. 1964, page 3-30.

12 Soligo, Ronald and Stern, Joseph J. Op.cit. page 250-251.

attractive development strategy are:-

1. It permits indigeneous entrepreneurs to exploit the existing markets for such consumer goods and so it is not necessary for them to develop new markets for domestically produced goods, and;

2. Import substitution, makes an obvious and direct effort to save foreign exchange by shifting from the import of final consumer goods (manufactures) to the import of raw materials, while simultaneously increasing domestic value added.

Import substitution may be adopted on economic or political grounds or a mixture of the two. From the economic viewpoint, industrialization through import substitution will promote the economic development of the country for it is no longer possible or advisable to depend primarily on agricultural activities to generate and maintain economic growth. Unfavourable world demand for the exports of a primary-producing country sees that country as suffering from an import (which equals export) constraint to its growth, and hence, a chronic balance of payments deficit results. Retardation of the growth of the export sector means that gross domestic product would be adversely affected unless the domestic sector is being developed and the ratio of imports to domestic income could be reduced. Through import substitution, scarce foreign exchange would be saved, imports can be reduced relative to domestic production so that a higher rate of national income and employment growth can be achieved, and at the same time there will be less "dependence on" or "vulnerability to" the uncontrollable actions of foreigners.[13] The desirable direction of more independence from world trade lies in a reduction of import coefficients and the increased domestic production of those manufactured goods that would otherwise have to be imported. National self-sufficiency is thus a political as well as an economic objective.

The high level of unemployment and disguised unemployment in these predominantly agricultural countries, together with a high population growth rate of about 3% per annum, makes it necessary not only to diversify the agricultural activities but also to promote industrialization. This is the situation in West Malaysia. Fluctuations in the world market for rubber and tin, the main foreign exchange earners of West Malaysia, have made the economy unstable. Moreover, in recent years the declining prices of natural rubber and the depletion of known tin mines have brought about a deterioration in the balance of payments. All these make it necessary to step-up industrialization in West Malaysia for industrialization will create new and varied job opportunities for the young growing population and at the same time it is a stimulus to economic development, and saves foreign exchange by diverting the domestic demand from foreign goods to domestically produced goods. Moreover, it will tend to correct the imbalance in the West Malaysian economic structure as one form of diversification.

However, considering the relatively small domestic market the policy of import substitution should not aim at producing for the home...

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[13] Dr. Gordon C. Winston, op.cit. page 108.

market only, for a point will be reached when domestic consumption is fully met with, and there will be no further stimulus to growth. It is necessary not only to secure the domestic market for the local industries but also to develope export markets.

The Measurement of Import Substitution

With few exceptions, import substitution is measured in relative terms. Imports have been compared to:-

(1) total supply;
(2) national income;
(3) domestic expenditure on goods but not on services;
(4) total consumption expenditure and;
(5) domestic value added.

Any of these measurements may be adopted but the behaviour of any two of them may not be similar.[14]

The United Nations definition of import substitution express import substitution as a ratio of the retained domestic output to total domestic consumption.[15] In symbols it is

$$\frac{D^A - X^A}{D^A + M^A - X^A}$$

where D^A is the domestic output of good A, X^A is the exports of the domestically produced good A, and M^A represents the imports of good A for domestic consumption. The numerator $D^A - X^A$ is thus the retained domestic consumption of good A while the deonominator $D^A + M^A - X^A$ is the total domestic consumption of good A.

Though this is a simple measurement it cannot be applied in the West Malaysian case because of statistical difficulties.

In this study we measure the import coefficient which is measured by comparing imports to total supply. Total supply is made up of domestic output of good A, (D^A) plus the import of good A, (M^A). When the percentage share of imports to total supply falls even though imports might have increased in absolute terms, import substitution is said to have occurred. This can be expressed in symbols:

$$\frac{M^A}{D^A + M^A} = \text{import coefficient.}$$

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14 Dr. Gordon C. Winston, op.cit page 112

15 United Nations: World Economic Survey, 1961

On the left hand side of the equation, M^A is imports of good A, D^A is the domestic output of good A, and $D^A + M^A$ is the total supply.

The import coefficient indicates the percentage share of imports in total supply.

This is, in fact, an over-simplified measurement as we do not consider exports at all. However, it serves in its purpose in some way, and it has been adopted here, although it is not an adequate one.

Import substitution can be taken as the replacement of the import of raw materials, consumer goods, manufactured consumer goods, intermediate and capital goods, and services, by domestically produced goods and domestic services. Here, we are only considering the import substitution of manufactured goods with reference to rubber products and transport equipment. However, it should be remembered that when an import-competing industry is undertaken, even though it is a consumer good industry and imports had merely changed from the import of consumer goods to the import of producer and intermediate goods and not a reduction in total imports, the amount of value added has increased. As a result of the establishment of this import-competing industry additional employment has been provided, greater skill and knowledge have been acquired and it might lead to consumption liberalization and the establishment of capital and intermediate goods industries.

CHAPTER III

IMPORT SUBSTITUTION OF WEST MALAYSIA - A GENERAL SURVEY

Industrial development is a relatively new feature of the Malaysian economy and it has tremendous scope for expansion, but, no one can deny that it has come a long way since the independence of West Malaysia in 1957. Today West Malaysia has successfully established a rather sophisticated network of consumer and intermediate goods industries to replace imports.

As the Government comes to recognise the growing importance of industrialization as an engine of economic growth more emphasis is stressed on industrial development. The reason is that it is no longer possible to rely solely on agricultural activity to bring about economic growth, for the traditional sources of national wealth are either static or delcining.

Period Prior to 1960

Previous to this decade very little is known about the secondary industry of West Malaysia. It was a lagging and neglected sector of the economy. Public and private interests were preoccupied with the agricultural and mining industries,and most literature on the economy of West Malaysia deals only on these two industries, eliminating the poorly developed and the then relatively unimportant industrial sector.

This is hardly surprising for, as is common with all underdeveloped countries, West Malaysia relies heavily on the export of one or two primary commodities to acquire foreign exchange. In this case, the commodities are rubber and tin.. Rubber is the life-blood of West Malaysia. In 1951, as a result of the Korean War boom, rubber formed 72.3% of the total yearly export of West Malaysia and it is only since 1964 that it occupies less than 50% of total yearly export. The importance of the rubber industry can be shown by the fact that one out of every four Malaysians derives his livelihood from the rubber industry. The export sector was the predominating force that brought about changes in the Gross Domestic Product before 1960 and it is interesting to note that rubber export income formed a large percentage of total export income. In 1959, rubber export income formed 69.6% of total export income, and though rubber price had shown an alarming declining trend since 1960 rubber export income still formed 44.2% of total income in 1965. Tin export, the second foreign exchange earner of West Malaysia, had increased from 12.09% of total export in 1959 to 28.1% in 1965.[1] Unlike rubber where the danger is the declining trend of prices especially in this decade, tin prices had been and are ..

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[1] All figures are obtained from "West Malaysian External Trade 1947-1965" by Dr. Lim Chong Yah. Research Paper for AID/Wisconsin University Research Project Conference on "Economic Interdependence In South-East Asia" held in Bangkok, Jan 1967, page 12-13

relatively favourably. The problem with tin is reserve exhaustion. Known tin deposits are running out and production may decline unless new deposits are found.

Despite the fact that interests and investments were mainly concentrated on the rubber and tin industry, there existed a secondary industry. However, as the World Bank Mission Report has pointed out even though "the secondary industry of Malaya covers a very wide range of activities, much of which are so fragmented and so intimately bound up with primary production and entrepot trade that it is not easy to sum up either the present state or the future prospects of industrial development".[2] The usual explanation for the smallness of West Malaysia's secondary industry and its low rate of growth is that there is a lack of investment opportunities as a result of inadequate natural resources and a small domestic market. Further, as most foreign capital, on which West Malaysia is greatly dependent then and even today, has been invested in industries that produce raw materials for export, these investments have not set into motion conditions favourable to industrial development.[3] The main raw materials produced in West Malaysia are rubber and tin, and these are more cheaply made into consumption goods nearer the centres of consumption.

"The rubber itself is usually a small part of the cost of such major rubber products as automabile tyres....Since rubber gains in weight and bulk in the course of manufacture, rubber-using industries are more advantageously located near centres of consumption. Tin is a very minor component of most of its industrial uses and transportation costs are comparatively low....Apart from the possibility of important technological and geological discoveries, it would seem that Malayan industrial development, in the future as in the past, must take the form of fairly small advances along a very wide front, cheifly for the home market and neighbouring export markets, rather than the establishment of a few big new industries."[4]

It is true that natural resources set the limits of certain types of industrial development, but it is doubtful whether industrial development as a whole is a function of natural resources.[5]

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[2] International Bank for Reconstruction and Development (IBRD), Economic Development of Malaya, 1955, page 301

[3] Puthucheary, J.J. "Ownership and Control in the Malayan Economy" Eastern Universities Press, Singapore, page 141 and 144. 1960

[4] I.B.R.D. op.cit. page 306.

[5] Puthucheary, J.J. op.cit. page 142.

The shortage of capital due to the lack of investment opportunities has been given as another explanation for the smallness of the industrial sector. However, "it is often nearer the truth that capital is created in the process of development than that development is a function of capital accumulation."[6] This is because development increases the income of the people in general and profits in particular and thus providing some of the conditions necessary for an increased rate of domestic capital formation. Also as the process of development gathers momentum external economies and investment opportunities are created and these will induce domestic capital formation and foreign investments.[7]

Being a predominantly agricultural economy West Malaysia produced raw materials for export to foreign countries and in turn had to depend almost entirely on the import of manufactured consumer goods. There was a market for such goods and the big importing agencies would not encourage domestic manufacturers because any fall in the volume of goods imported would affect their profitability. Thus, it could hardly be expected that agency houses would invest in local manufacture or favours anyone else doing so, as these industries would compete with the imported goods and would reduce their profits.[8]

Moreover, the tariff structure that existed then gave preferential treatment to imports from British Commonwealth countries and as such the doemstic market was originally a preserve for such goods, especially British manufactures. The preferential system was removed only in 1959. It is, therefore, not surprising that the local manufacturing industry was weak and confined largely to areas of 'natural' protection.[9] This partly gave rise to the high degree of brand-consciousness that existed in West Malaysia.

The Industrial Development Working Party which was set up in 1957 to estimate the industrial opportunities of West Malaysia, adopted a very similar approach as the World Bank Mission Report (IBRD 1955), and that is that the best policy towards industrialization would be in advances on a wide front, mainly in production for the home market, with some export possibilities, rather than the reliance on a few big industries. One of the reasons being that the home market although consuming a wide variety of imported..

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6 Bauer, P.T. and Yamey, B.S. "Economics of Underdeveloped Countries". Nisbet-Cambridge University Press 1957, page 127.

7 Puthucheary, J.J. op.cit. page 142

8 Ibid. page 155

9 Wheelwright, E.L. "Industrialization in Malaya", Melbourne University Press, page 90.

manufactured goods is small and limited. If production were to start on a very large scale production costs would be large and the local products would be in an unfavourable position to compete with the imported goods of the industrialised countries where they have already expanded the scale of production coupled with the progress of technology in the long history of development. The lack of social overhead capital is another reason why the industries established have to be small to begin with.

The majority of the plants in the secondary industry were concerned with the processing of primary products, but, there existed factories which produced cigarettes, rubber footwear, foam rubber, rubber mattresses, rubber compound, bicycle tubes and cement. After the independence of West Malaysia in 1957 the government committed itself to an industrialization programme but the major objectives were to diversify the economy and to create employment opportunities rather than as a means of replacing imports. However, as a result of the interest shown by the government and especially after the introduction of the Pioneer Industries (Relief from Income Tax) Ordinance 1958 the manufacturing industry expanded Table 3-1 shows the import and export data for certain selected manufactured rubber products for 1957 and 1962. It can be seen that in the case of rubber mattresses and foam rubber there had not only been a spectacular decline in imports, but a very considerable increase in exports. All these indicate that in the latter half of the 1950's import substitution had already occurred for a number of items.

The Manufacturing Sector in the 1960's

From 1960 onwards the export sector ceased to be the predominant force that brought about changes in the Gross Domestic Product, as in previous years. This was partly due to the declining price of natural rubber. In 1960, the price of natural rubber was 108.08 cents per pound (R.S.S.No.1) and this fell to 70.13 cents per pound in 1965. Thus, despite the fact that export volume had increased from 767,000 tons in 1960 to 887,000 tons in 1965, the corresponding rubber export income registered a decline from $1,829 million to $1,368 million.[10]

During this period, 1960-1965, the export sector achieved scarcely any expansion of its foreign exchange earnings and total exports showed a very slow annual growth rate of only 0.8%[11]. The decline in rubber export income had largely helped to bring this about for rubber still formed about half of total export volume. This decline would have serious repercussions on the West Malaysian economy as export income is an important source of government revenue for the three major items (export taxes, income taxes and import taxes) have been directly or indirectly a function of Gross Export Proceeds changes.[12] In addition, while exports grew extremely slowly during this period 1960-1965, the value of imports had grown at a rate of 3.5%[13] and as a result the commodity terms of trade,...

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10 Dr. Lim Chong Yah op.cit. page 12

11 First Malaysia Plan 1966 - 1970, page 22-24, table 2-2

12 Dr. Lim Chong Yah op.cit. page 11

13 First Malaysia Plan, op.cit. page 31.

TABLE 3-1

FEDERATION OF MALAYA: IMPORT REPLACEMENT, EXPORT GROWTH, IN SELECTED RUBBER PRODUCT MANUFACTURES FOR 1957 AND 1962.

Imports	1957	1962
Rubber Mattresses (No.)	1,023	179
Foam Rubber (Lbs.)	24,136	12,196
Bicycle tubes (1,000 pieces)	438	158
Canvas Shoes with Rubber Soles (doz. pairs)	8,429	2,849
Exports		
Rubber Mattresses (No.)	8,459	44,726
Rubber Compound (1,000 lbs)	29	1,176
Bicycle Tubes (1,000 pieces)	246	451
Rubber Footwear (doz. pairs)	69,908	25,517*

* Exports in 1961 - 147,698 doz. pairs.

Source: Monthly Statistical Bulletin of West Malaysia June 1967

TABLE 3-2

MALAYA: DOMESTIC PRODUCTION AS PROPORTION OF TOTAL CONSUMPTION, SELECTED INDUSTRIAL PRODUCTS, 1960 & 1965

Product	1960	1965 (Preliminary)
Cigarettes	.60	.90
Manufactured Tobacco	.69	.75
Biscuits	.93	1.08*
Soap	1.06*	1.20*
Bicycle Inner Tubes	.97	1.25*
Cement	.89	1.08*

* Net exporter

Source: First Malaysia Plan 1966-1970 Table 2-5, page 26.

which was formerly favourable, deteriorated. Fortunately, despite the slow growth rate of export income the Gross Domestic Product had shown an increase of 16% for 1962-1965 which rightly implied that the non-export (domestic) sector must be largely responsible for the faster growth rate of Gross Domestic Product.[14] Investment in manufacturing had contributed to this rapid growth of the domestic sector.

The small secondary industry which was established in the latter half of the 1950's had expanded during this period, but the growth was not very rapid. Investments were undertaken by private investors in the process of import substitution and consequently for certain products domestically produced goods have begun to replace those previously imported from abroad. This type of structural change is indicated in Table 3-2 which shows the rise of the share of certain domestically manufactured commodities to total consumption between 1960 and 1965. The Table also shows that for certain industrial products West Malaysia has already become a net exporter.[15] However, despite the fact that import substitution has occurred for a number of commodities it is obvious that only the initial movement in this direction has been taken. The goods produced are mainly consumer and intermediate goods for these goods require less skill and less capital-intensive methods of production and there is in existence a ready market for them. The potentiality of import substitution in West Malaysia is very high indeed for from estimates made it is clear that only about 40% of total domestic demand for consumer goods of roughly $2,000 million is presently (1965) met from local production, while 60% is imported. As increases in population and per capita income enlarges the domestic market and as export markets are developed, additional opportunities for industrial development will arise.[16] The existence of such a large market for manufactured consumer and producer goods, as indicated in Appendix 1, provides a viable base for the establishment of many industries producing import-substituting products.

Industrialization has taken the form of import substitution because this is the easiest and best way of introducing industrialization in order to counteract partially the deteriorating commodity terms of trade. As Professor Hirschman has pointed out: "(Imports) provide the safest, most incontrovertible proof that the market is there. Moreover, they condition the consumer to the product, breaking down his initial resistance. Imports thus reconnoitre and map out the country's demand; they remove uncertainty and reduce selling costs at the same time, thereby bringing perceptibly closer the point at which domestic production can economically be started."[17]

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[14] Dr. Lim Chong Yah op.cit. page 11

[15] First Malaysia Plan, op.cit. page 26

[16] Ibid. page 130

[17] Professor Hirschman, Albert O., "The Strategy of Economic Development", New Haven, Yale University Press, 1960 (page not sure)

It has been said that even by 1962 the Government has not given industrialization through import substitution as much thought as it deserves, perhaps because West Malaysia has not yet experienced balance of payments problems at that time, although the situation was changing from a favourable to a less favourable terms of trade.[18] However, it should be borne in mind that it is the Government's intention to leave the operation of the manufacturing sector to private enterprise while it adopts a promotional attitude by providing attractive incentives and facilities to encourage private investors to invest in West Malaysia. As a result of all these incentives and facilities enhanced by the political and financial stability of West Malaysia the manufacturing sector has advanced steadily. "During the 1960-1965 period, 110 firms were granted pioneer industry certificates, 26 for the manufacture of chemicals and chemical products, 18 for foods and beverages, 15 for metal products other than machinery and transport equipment, five for textiles and the remainder for a wide variety of other activities. The total called-up capital of these pioneer industry firms as of September, 1965 amounted to about $234 million, compared with $29 million at the end of 1960. Of the $234 million, approximately 61% represented investment from abroad. A total of 98 pioneer firms employing 10,730 workers were in production in September, 1965. When these firms reach the end of their pioneer relief periods, they will provide a total of about 14,500 jobs."[19]

As a result of increasing private investment in the manufacturing sector in the 1960's, and especially since 1964, the proportion of manufactured goods to domestic product grew from 8½% at the beginning of this decade to a percentage share of a little less than 11% in 1967.[20] The policy of industrialization was to establish industries producing consumer goods for the domestic market. However, these industries will undoubtedly exert a powerful stimulus for the establishment of primary and intermediate industries in this country and in fact the transformation has already begun. The industrial enterprises in West Malaysia today ranges from such substantial investments as oil refineries, an integrated steel mill, a big fertilizer plant, cement factories, sugar refineries and flour mills down to all manner of smaller operations such as breweries, textile mills, cigarette factories and tyre factories. Six motor vehicle assembly plants has been established within 1967 and early 1968. These in turn will become the mainstay of a drive for diversification as the locally manufactured content must be steadily increased. It is hoped that by the end of 1968 or in 1969 an extensive motor vehicle components industry would be founded to cater to the needs of these assembly plants.

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18 Wheelwright, E.L. op.cit. page 79

19 First Malaysia Plan, op.cit. page 125-126

20 Special Feature, The Sunday Times, March 24, 1968

This, and other projects in the pipeline, will ensure that industry will at least maintain its 15% annual growth rate of recent years.[21] However, though the growth has been impressive and it seems certain that the share of manufacturing in gross domestic product will improve, it is clear that this sector is not expanding fast enough. The overall rate of growth must be considerably stepped-up if industrialization is to cushion adequately falling rubber and tin prices over the long term.

Incentives and Facilities

Central to progress so far, and in addition to such general attractions as political and financial stability, and a developing domestic market, has been the government's careful campaign to encourage industrialization. Many incentives and facilities have been offered by the Government to attract private investors, both local as well as foreign to invest in West Malaysia for it is the intention of the Government to leave the actual operation of the manufacturing sector to the private entrepreneurs.

For the purpose of providing the necessary infrastructure, many industrial estates have been and are being prepared by the state governments. The first of such estates is Petaling Jaya established in the early part of the 1950's. Today, there is a total of ten industrial sites in West Malaysia, totalling 3,503 acres, however, not all are fully occupied as yet. The major advantages these industrial estates offer to potential investors are that land titles can be acquired quickly and that they are fully-equipped with basic facilities.

Tax incentive as a means of promoting industrialization is especially effective. Under the Pioneer Industries (Releif from Income Tax) Ordinance of 1958 a pioneer company or industry may be exempted from company tax (40% flat on profits) for two or five years, depending on the investment in fixed assets.

At the end of May 1967, 122 Malayan (West Malaysian) companies had been given pioneer certificates and another 77 had had their applications approved in principle (they will get their certificates when they start production). Pioneer industries employed about 12,000 workers and represented a total investment of more than $400 million.[22]

In addition to tax relief, guarantees have been given to foreign investment against nationalization, capital can be repatriated and profits remitted freely (in the Sterling Area), as and when desired. Machinery and equipment required for the setting-up of factories are normally not subject to import duty, and in deserving cases imported raw materials, required by these factories, may be exempted from duties.

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[21] Chang W.K. "Industrial Base is being laid." in Ten Years of Merdeka, a Straits Times Publication, August 1967, page 36.

[22] Ibid. page 36.

The major incentive is of course the tariff protection given to the import-substituting products. It is the policy of the government to protect efficient local industry against unfair competition from imported goods as it is difficult for a country to become industrialised without very substantial tariff protection and other means of keeping foreign products out. Being heavily dependent on imported manufactured goods in the past and as the tariff structure formerly gave preferential treatment to imports from the British Commonwealth nations, especially to British imports, brand-consciousness is extra-ordinarily high in West Malaysia. In addition to this, in the past inferior imitations were allowed to reach the market and there was a certain amount of adulteration. Protective tariffs provide time for the people to switch their loyalty from the imported products which they had always consumed to the new local products the quality of which they are not sure, and place the local products on a more equal stand to compete with the established foreign products.

The well-developed infrastructure of the country, a pre-requisite for rapid economic development, has helped in no small way in the direction of industrialization. In addition, there exist financial institutions, an example is Malaysian Industrial Development Finance Limited (MIDFL), a Government sponsored institution, which provide long-term and medium-term loans to industrial exterprises chiefly for the acquisition of fixed assets.

However, despite all these incentives and facilities it is clear that the industrial sector is not expanding as fast as the government has hoped it would. A new bill, the Investment Incentives Bill has been passed by Parliament at the beginning of 1968. This Investment Incentives Bill offers four main-types of incentives: relief from income tax, including payroll tax, investment tax credit, and accelerated depreciation and export allowances. It is hoped that this bill will induce a greater and more rapid flow of investment not only in manufacturing and agricultural based industries, but also other enterprises, and to encourage the expansion of exports in manufactures.

The provision of these many incentives and facilities by the government in order to promote a more rapid growth of the industrial sector, in addition to the economic, financial and political stability of West Malaysia, has helped to offset the obstacles to industrialization. As a result of all these incentives and ficilities foreign private investors were attracted, however, local investors were not slow to follow up. Now the trend is from foreign private enterprise to joint-ventures so that local capital are utilised along with foreign capital, and local personnel are being trained-up to participate in the management and operation of these industrial establishments.

CHAPTER IV

RUBBER PRODUCTS MANUFACTURING INDUSTRIES

The commodities which are included under this broad heading of "Rubber Products Manufacturing Industries" are: rubber footwear, tyres and tubes, rubber compound, foam rubber products which include mattresses, cushions, rubber floor matting, hose and tubing, and a few other less important commodities which are lumped together as "other rubber products".

The rubber products manufacturing industries were established in the 1950's. Although the IBRD Report (1955) did not consider West Malaysia to be a major centre of manufactured rubber goods for export because rubber is light and compact in its relation to its value and therefore cheap to ship relative to its cost, Wheelwright[1] stated that since 1957 production has more than doubled. (refer to Table 3-1). We will now see how this industry has progressed in the direction of import substitution from 1959 to 1966.

Growth of Local Production, 1959-1966

The rubber products manufacturing industries are among the first industries to be established in West Malaysia about the time of independence in 1957. The products manufactured are rubber footwear, foam rubber, bicycle tubes, rubber compound and rubber mattresses. Since then production has increased steadily, and the growth is especially spectacular in the case of rubber mattresses and foam rubber products where there was not only a significant decline in imports but also a remarkable increase in exports. This can be seen from Table 3-1 (Chapter III) which presents import replacement and the growth of export in certain selected rubber products for West Malaysia between 1957 and 1962.

In 1959 there were 46 establishments producing manufactured rubber goods, which include rubber footwear, tyres and tubes, foam rubber products including rubber mattresses, and rubber products. The total net value of output for that year was $12,377 thousand, a rather considerable amount. By 1966, the net value of output had increased to $37,485 thousand showing an increase of 302.86% over the 1959 net value of output. The net value of output of the rubber products manufacturing industries for 1959 to 1966 can be seen from Table 4-1 which also presents the corresponding statistical data on the number of establishments, employment and the salaries and wages paid.

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[1] Wheelwright, E.L. op.cit. page 72.

TABLE 4-1

RUBBER PRODUCTS(1) MANUFACTURING INDUSTRIES 1959-1966

Year	Number of Establishments	Net Value of Output ($1,000)	Number of Paid Employees at Dec.31st.			Salaries and Wages paid ($1,000)
			Full-time	Part-time	Total	
1959	46	12,377	4,971	59	5,030	5,992
1960	45	14,312	4,974	54	5,028	6,846
1961	43	15,607	5,375	54	5,429	7,212
1962	46	15,497	5,524	81	5,605	7,554
1963	45	19,722	6,306	63	6,369	9,426
1964	43	23,826	6,982	63	7,045	11,198
1965	41	34,718	7,436	60	7,496	13,615
1966	41	37,485	7,334	48	7,382	14,084

Source: Compiled from Survey of Manufacturing Industries in the States of Malaya, 1960-1966 issues.

(1) Rubber products include rubber footwear, tyres and tubes, foam rubber products and rubber products not elsewhere specified.

An interesting point to note is that during this period 1959-1966, the number of establishments had fluctuated but this had not affected the net value of output, employment or wages, all three had shown a steady increase. In 1959 there were 46 establishments in the rubber products manufacturing industries but the net value of output was $12,377 thousand, as compared to $37,485 thousand in 1966 when the number of establishments had declined to only 41. At the same time the number of paid employees had increased from 5,030 in 1959 to 7,496 in 1965. The amount of wages and salaries paid had increased too from $5,992,000 in 1959 to $14,084,000 in 1966. This reduction in the number of establishments could mean that either the less efficient plants had been forced to close down or else some of the firms had amalgamated or the bigger and more efficient establishments had bought over the smaller ones. The explanations that the firms had merged or that the small ones had been bought over by the bigger ones, are the more possible explanations especially when we see it in terms of the net value of output and employment. If the reduction in the number of establishments had been due to the closing-down of inefficient firms then the number of paid employees should have shown a number less that employed by these firms that had left the industry. Of course, these employees could have been absorbed by the other more efficient establishments but as can be seen from Table 4-1, the number of employees had increased and not remained constant.

Moreover, the net value of output had expanded too. It is quite improbable that the more efficient firms could have expanded at such a rate that they not only absorbed the employees of the less efficient establishments that had left the industry but also additional workers, in order to bring about this increase in the net value of output despite the decline in the number of establishments.

In 1966 despite the fact that the number of establishments had remained the same as that in 1965 while employment has decreased from 7,496 employees in 1965 to 7,382 in 1966, the net value of output had increased from $34,718 thousand (1965) to $37,485 thousand (1966). It is very possible that this had resulted from the employment of more highly skilled labour due to the use of better method and technique of production. The amount of salaries and wages paid seemed to confirm this explanation for although the number of employees had diminished, salaries and wages paid in 1966 had increased from $13,615,000 in 1965 to $14,084,000. This clearly indicates that the less skilled labour had been replaced by more highly skilled ones and as a result although the number employed is less than that in the previous year the net value of output had increased.

Import Substitution: Manufactured Rubber Products, 1960 to 1966

Even by 1960 domestically produced rubber product manufactures had formed a rather considerable proportion of the total supply of such goods in West Malaysia. The production coefficient for that year was 37.36% while the corresponding import coefficient was therefore, 62.64%. This shows that in 1960 and earlier local production had begun to replace imports. All these and other information can be seen from Table 4-2 which presents import substitution in rubber product manufactures from 1960 to 1966.

TABLE 4-2

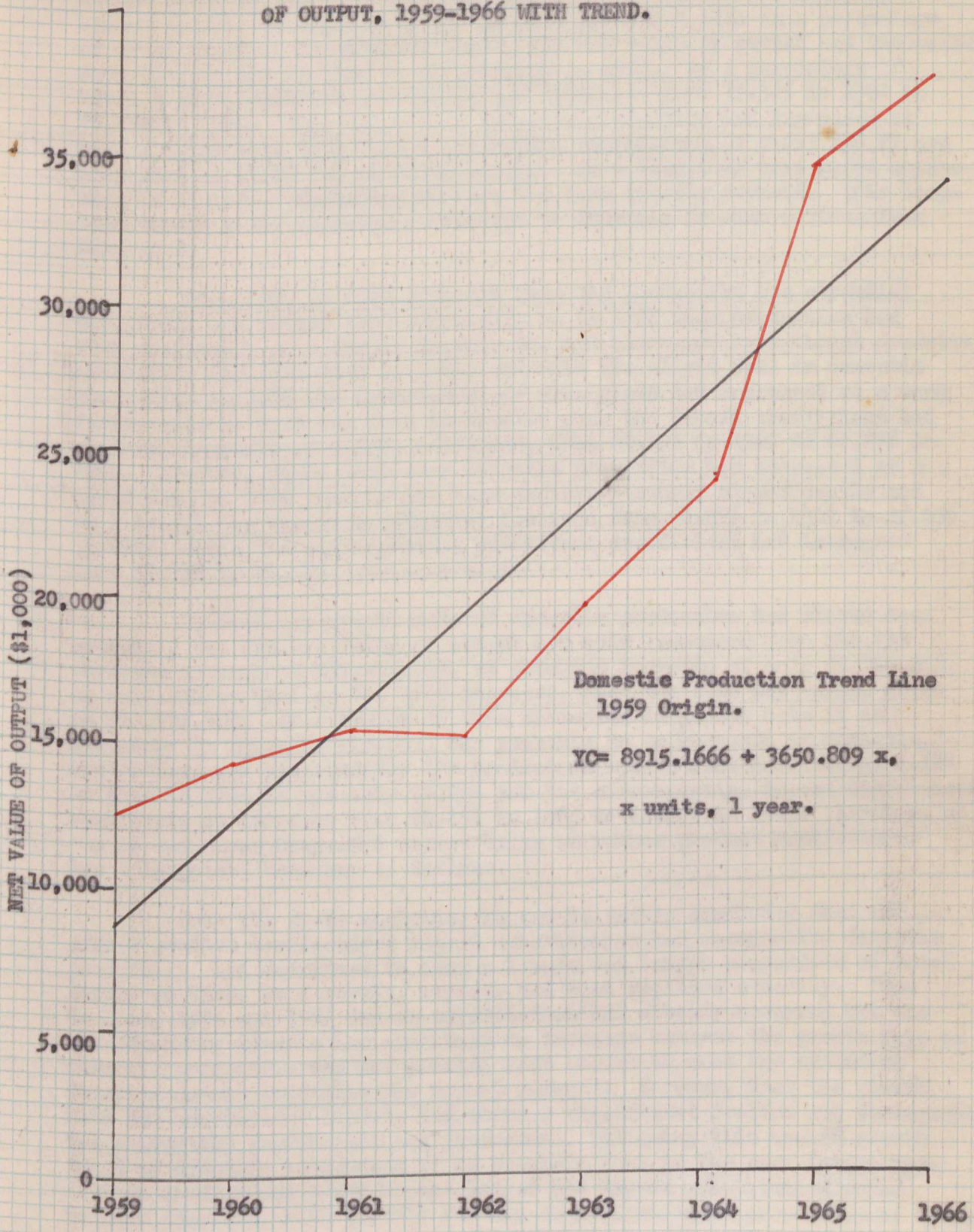
WEST MALAYSIA: RUBBER PRODUCT MANUFACTURES:
VALUE OF IMPORTS AND DOMESTIC PRODUCTION, 1960-1966

Year	Net Value of Output $	Value of Imports $	Total Supply $	Production Coefficient %	Annual % Change	Import Coefficient %	Annual % Change
1960	14,312,000	23,999,407	38,311,407	37.36	-	62.64	-
1961	15,607,000	25,674,774	41,281,774	37.81	+ 0.45	62.19	- 0.45
1962	15,497,000	30,446,872	45,943,872	33.73	- 4.08	66.27	+ 4.08
1963	19,722,000	21,036,078	40,758,078	48.39	+14.66	51.61	-14.66
1964	23,826,000	17,265,495	41,091,495	57.98	+ 9.59	42.02	+ 9.59
1965	34,718,000	13,926,140	48,644,140	71.37	+13.39	28.63	-13.39
1966	37,485,000	15,872,096	53,357,096	70.25	- 1.12	29.75	+ 1.12

Source: Compiled from Survey of Manufacturing Industries in West Malaysia 1960-1966 issues and from States of Malaya, Monthly Statistics of External Trade 1961-1966.

DIAGRAM I

WEST MALAYSIA: RUBBER PRODUCTS MANUFACTURING INDUSTRIES NET VALUE OF OUTPUT, 1959-1966 WITH TREND.



The net value of output had increased steadily during this period 1960-1966, except for 1962 when the net value of output had shown a slight decline. On the whole, domestic production had indicated an upward growth trend not only in absolute terms but also as a percentage of total supply. In absolute terms, the net value of output had increased from $14,312,000 in 1960 to $37,485,000 in 1966. As a percentage of total supply, domestic production had increased from 37.36% in 1960 to 70.25% in 1966. This means that domestic production had increased at such a rapid rate that from a production coefficient of about 37% it had increased to about 70% of total supply. As a result of this rapid expansion in domestic production imports had been greatly reduced. This long-term tendency for domestic production to increase is also obvious from Diagram I.

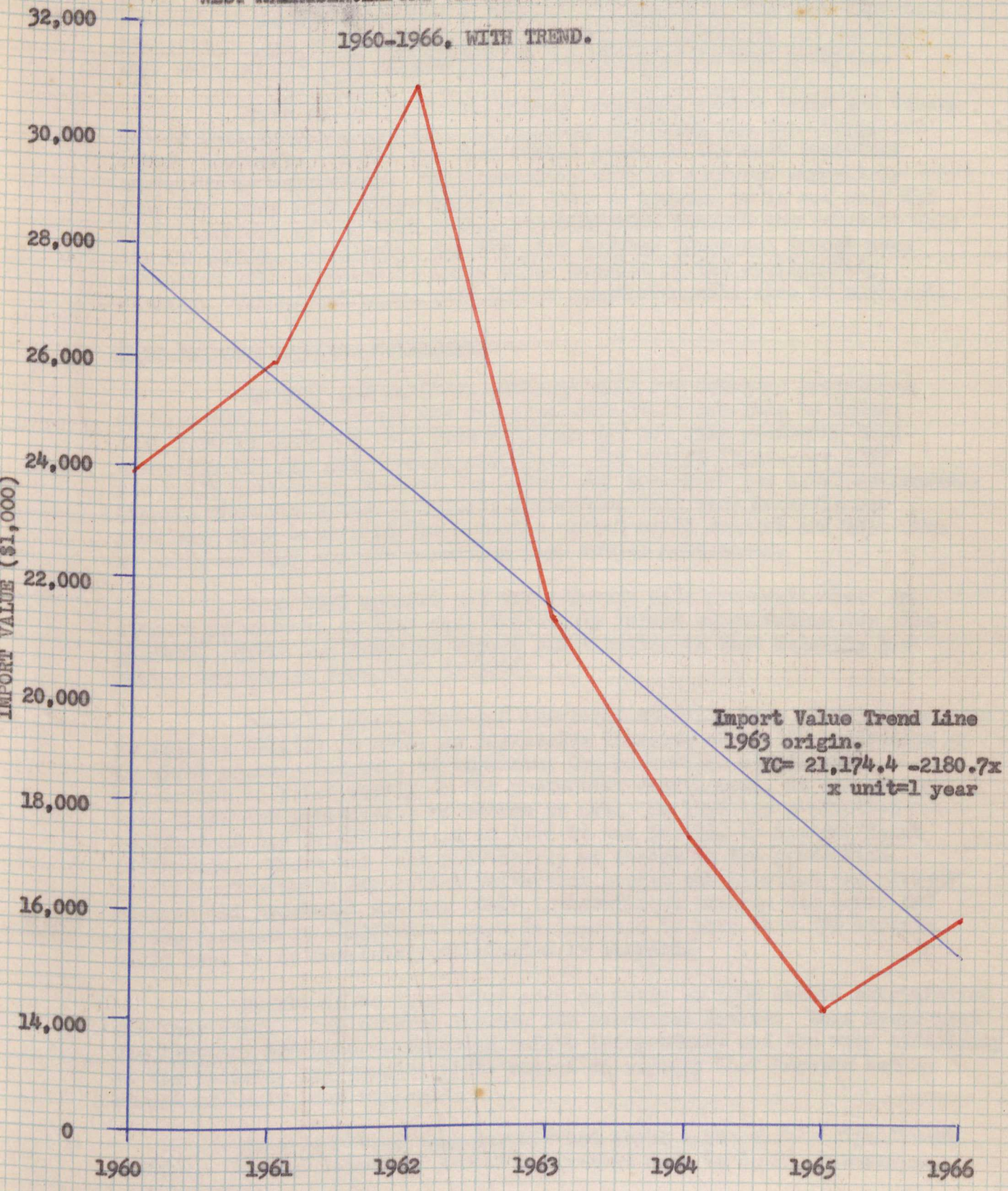
From 1960 to 1962 although domestic production was expanding the growth was rather slow especially so in 1962 when production had even declined. As a result imports too had increased even though domestic production had increased in 1961, and with the slight fall in domestic production in 1962 the importation of such goods had increased at a much faster rate so that for this particular year the import coefficient had shown an increase of 4.08%, increasing from 62.19% in 1961 to 66.27% in 1962. However, since that year domestic production had increased at a rapid rate so that imports had been curtailed rather significantly and as a result the import coefficient declined from 66.27% in 1962 to 28.63% in 1965, while the corresponding production coefficient had increased from 33.73% to 71.37%, respectively.

In 1966 the growth rate of domestic production had slowed down somewhat, for the net value of output had only increased from $34,718 thousand in 1965 to $37,485,000, an absolute increase of only $2,767,000, as compared to that of the 1965 increase, over the 1964 net value, which is $10,892,000. As a result of this slow-down in growth rate it is necessary to increase imports, due probably to an increase in domestic absorption, and consequently the production coefficient declined by 1.12% so that in 1966 it was only 70.25% and the corresponding import coefficient registered an increase from 28.63% in 1965 to 29.75% in 1966. However, as can be seen from Diagram 2 import value of rubber product manufactures has a long-term tendency to decline.

From the above analysis, it can be safely concluded that for rubber product manufactures import substitution had occurred for domestic production had continued to form a larger and larger proportion of total supply so that, as a result, imports had been replaced steadily. Even in 1960, 1961 and 1962 import substitution had already occurred but the corresponding imports had continued to increase because the growth rate of doemstic production was not growing fast enough to meet the expanding domestic demand (and also the export market). However, once the growth rate had accelerated imports had shown a significant decline and consequently the production coefficient had increased. Following this upward growth trend of domestic production it is possible that in the near future production coefficient would become larger and import substitution would be more complete, with imports forming an insignificant proportion of total supply.

DIAGRAM 2

WEST MALAYSIA:IMPORT VALUE OF RUBBER PRODUCT MANUFACTURES, 1960-1966, WITH TREND.



The Rubber Products Manufacturing Industries of West Malaysia have shown a steady rate of increase from 1960 to 1966 and in this particular case considerable import substitution has already taken place. However, it is now necessary to look at the growth of the more important products of the rubber products manufacturing industries, and see how they have contributed towards import substitution in West Malaysia.

Foam rubber products, rubber compound, rubber tyres and tubes, rubber footwear, and sheeting and matting are among the more important rubber products. Of all the foam rubber products the most important commodity is mattresses. This commodity will be analysed separately from the other foam rubber products, this is because it is not only the most important of the foam rubber products but, because the relevant data are available. Similarly, for the item "rubber tyres and tubes" more attention will be given to inner tubes because of the availability of data. Tubing and hose, part rubber reinforced will also be analysed.

Foam Rubber Products: Mattresses

In 1957 and earlier, although data for domestic production of foam rubber mattresses are not available it is possible to deduce that even as early as that West Malaysia was not only producing this commodity but she was also an exporter. The export figure for 1957 was 8,459 mattresses whereas the import for that year was 1,023 mattresses. Exports thus far exceeded imports indicating that West Malaysia was producing much more than the domestic market could consume and that even as early as 1957 she was exporting foam rubber mattresses.

From 1958 onwards all the relevant data are available. An attempt is made to analyse more thoroughly import substitution for this product. Table 4-3 presents import substitution in West Malaysia for rubber mattresses from 1957 to 1966.

Domestic production had increased steadily from 28,205 mattresses in 1958 to 101,222 in 1966, an impressive increase of 73,017 mattresses in eight years. However, on examining the percentage of domestic production to total supply or the production coefficient, it can be seen that there was practically no change at all. In 1958 the production coefficient was 99.31% whereas in 1966 it was 99.49%, an insignificant difference. There has been practically no change in the production coefficient because for rubber mattresses import substitution has already reached its practical limits. Only insignificant changes can occur and if the production coefficient were to increase to more than 99% imports would have to be completely eliminated or stopped.

It should be noted that even as early as 1958 import substitution for this product had already reached its practical limits. This means that the industry had been established before independence and the very efficiency of the industry had enabled it to expand so rapidly that imports had almost entirely been replaced.

As a result of this imports had shown a remarkably significant decline. In 1957 import of rubber mattresses came to 1,023, however,...

TABLE 4-3

FOAM RUBBER MATTRESSES - IMPORT SUBSTITUTION

Year	Production (numbers)	Imports (numbers)	Total Supply (numbers)	% of Domestic Production to Total Supply	% Change	% of Imports to Total Supply	% Change	Exports (numbers)	Domestic Absorption (numbers)
1957	n.a.	1,023	n.a.	[illegible]	-	[illegible]	-	8,459	-
1958	28,205	139	28,344	99.51	-	0.49	-	9,517	18,827
1959	34,579	633	35,212	98.20	-1.31	1.80	+1.31	14,612	20,600
1960	45,472	80	45,552	99.82	+1.62	0.18	-1.62	35,389	10,163
1961	48,192	173	48,365	99.64	-0.18	0.36	+0.18	39,196	9,169
1962	55,759	179	55,938	99.68	+0.04	0.32	-0.04	44,726	11,212
1963	59,163	109	59,272	99.82	+0.14	0.18	-0.14	52,277	6,965
1964	69,011	191	69,202	99.72	-0.10	0.28	+0.10	62,097	7,105
1965	99,247	588	99,835	99.41	-0.31	0.59	+0.31	75,958	23,877
1966	101,222	509	101,731	99.49	+0.08	0.51	-0.08	58,706	43,025

Source: Compiled from Monthly Statistical Bulletin of West Malaysia, June 1967

one year later in 1958 import had been drastically reduced to only 139 mattresses. The import coefficient for that year was 0.49%. This impressive decline in imports must be due to the sudden acceleration in the growth rate of the domestic industry. In 1959 imports had increased to 633 mattresses and as a result of this rather large increase the import coefficient had increased to 1.80 %. However, this is an exceptional year, for in all the years from 1958 to 1966 the import coefficient had remained steady at leas than 1%, varying between 0.18% and 0.59%. Even in 1965 when import had shown a rather big increase in absolute terms (from 191 in 1964 to 588 in 1965) the import coefficient had shown some insignificant changes (from 0.28% in 1964 to 0.58% in 1965) This means that even as import increased the domestic production had increased at almost the same rate, so that the net result was that there is little effect on the production or import coefficient.

Changes in imports were brought about by changes in domestic production and in domestic absorption and export. Both domestic production and exports had increased steadily over the years but domestic absorption had fluctuated.

The number of mattresses absorbed in 1958 by the local market was 18,827 and this number had increased to 23,877 by 1965 and 43,025 in 1966. In these years of high domestic absorption there has been a corresponding increase in imports for in these years imports had increased significantly despite the increase in domestic production. This means that although domestic production had increased at a rapid rate, domestic absorption had increased rapidly too so that it is necessary to increase imports. However, between 1959 and 1965, there is a decline in domestic absorption as compared to 1959 and 1965. As domestic absorption diminished it was not necessary to increase imports which remained relatively stable at less than 200 mattresses per year, for the expanding domestic industry was able to meet the demand of the local market and at the same time the growing export market.

In 1959 it could be because both the domestic and export markets had increased that it was necessary to increase imports. The same applies to 1965. However, in 1966 exports took an unusual turn and showed a decline. This decline in export could be partially due to a slight fall in international demand for rubber mattresses, but the most important reason is that domestic absorption had increased so much that it almost doubled the 1965 amount. This fantastic increase in domestic absorption without a corresponding increase in domestic production or imports had led to a decrease in exports.

For foam rubber mattresses the production coefficient had remained almost unchanged for all the years from 1958 to 1968 at more than 99% while the import coefficient had thus been insignificant. This is because import substitution had already reached its practical possible limit. West Malaysia could easily have provided for the entire domestic market but for the simple reason that it is her trading policy to "buy from the cheapest market and selling to the dearest ones."[2] whenever the opportunity arises. In this situation since domestic production had almost entirely replaced imports the problem is to ....

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[2] Dr. Lim Chong Yah op.cit. page 23.

develop both the domestic and export markets if production was to continue to expand.

Other Foam Rubber Products

Cushions, pillows, bolsters, and others have all been classified under this heading of "other foam rubber products". Reference should be made to Table 4-4.

As in the case of rubber mattresses, domestic production formed a very large proportion of total supply. In 1958, the production coefficient was 98.28% but this had increased to 99.45% in 1959 and since then had reamined at this level of more than 99%. Even in the years when imports had increased in absolute terms as in 1962, 1965 and 1966, domestic production had increased at such a rate that the production and import coefficient have retained their respective proportions. As a result of this high proportion of production in total supply it can be stated that import substitution had occurred and had practically replaced imports.

Domestic absorption had increased steadily throughout this period 1958-1966. In 1958 the amount absorbed was 71,438 pounds and this had increased to 2,736,585 pounds in 1966. There is liberalization of consumption for the per capita absorption had increased from 0.0108 pounds in 1958 to 0.3413 lbs in 1966, as can be seen from Table 4-11. Since 1961 domestic absorption had increased rapidly and even though imports had been increased in absolute terms there was little change made in the import coefficient because production had increased too.

It is interesting to note that from 1961 onwards the slightly increasing export volume had started to decline. This reduction in exports must be partly due to the decline in international demand and partly to the increase in domestic absorption. The reduction in exports was particularly significant in 1966 when the volume was only 27,003 lbs. as compared to 268,181 lbs. in 1965 and 590,464 lbs. in 1961. The rapid growth in domestic absorption had partly brought this about for domestic production was not expanding very fast during 1966 and as a result it was necessary to increase the import volume. The slow-down in the momentum of local production while absorption continued to increase rapidly, had thus resulted in the decline in exports. However, it should be pointed out that the export market had not been too promising and it is necessary to develop it so that domestic production would not be adversely affected, as the 1966 growth rate had indicated. Unless domestic production were to increase, it would be necessary to increase imports if domestic absorption were to continue to expand at its present rate, or else it would be necessary to reduce exports further.

Rubber Compound

Unlike the above two commodities where import substitution had already reached the highest possible limit without complete elimination of imports, here, it is still possible to increase the domestic production coefficient.

TABLE 4-4

OTHER FOAM RUBBER PRODUCTS - IMPORT SUBSTITUTION

Year	Production lbs.	Imports lbs.	Total Supply	% of Domestic Production to Total Supply	Annual % Change	% of Import To Total Supply	Annual % Change	Exports lbs.	Domestic Absorption lbs.
1957	n.a.	24,136	n.a.	n.a.	n.a.	n.a.	n.a.	308,324	n.a.
1958	594,502	10,355	604,857	98.28	-	1.72	-	533,419	71,438
1959	712,025	3,898	715,923	99.45	+1.17	0.55	-1.17	460,245	255,678
1960	1,032,409	5,881	1,038,290	99.43	-0.02	0.57	+0.02	523,131	515,159
1961	1,422,818	5,114	1,427,932	99.64	+0.21	0.36	-0.21	590,464	834,468
1962	1,706,592	12,196	1,718,788	99.29	-0.35	0.71	+0.35	298,306	1,420,482
1963	2,064,510	15,696	2,080,206	99.24	-0.05	0.76	+0.05	370,495	1,709,711
1964	2,295,241	3,303	2,298,544	99.86	+0.62	0.14	-0.62	320,701	1,977,843
1965	2,712,926	11,893	2,724,819	99.56	-0.30	0.44	+0.30	268,181	2,456,638
1966	2,742,824	20,764	2,763,588	99.25	-0.31	0.75	+0.31	27,003	2,736,585

Source: Compiled from Monthly Statistical Bulletin of West Malaysia, June 1967.

In this case, although domestic production had increased, the growth rate was not very rapid and in certain years as in 1959, 1962 and 1965 the production had declined in absolute terms and percentage-wise. The result was that the production coefficient had not increased smoothly but had first declined from 97.62% in 1957 to 74.91% in 1959, but later had increased so that in 1966 it was 94.75%. All these can be seen from Table 4-5 which presents the figures for production, import and total supply, the production and import coefficient, and also the export and domestic absorption of rubber compound. If production coefficient were to increase, it would be necessary to increase domestic production.

As a result of this slow growth rate of domestic production the import coefficient had been rather high, especially in 1959 when it was 25.09%. However, from Table 4-5 it is perceptible that in the long run import coefficient shows a tendency to decline and this means that import substitution is increasing.

Domestic absorption had been rather static and had even shown a slight declining trend. This means that it did not serve as a stimulus to domestic production. Fortunately, the increasing export market had been most encouraging but since 1964 it too had shown a tendency to decline. If the increased domestic absorption in 1966 were to continue then this would serve as a stimulus to the domestic industry and thus enable a higher degree of import substitution to be attained.

Here, import substitution had occurred but with a more encouraging domestic as well as export market, it will be possible to increase the degree of import substitution.

Inner Tubes

This heading "inner tubes" includes bicycle, tricycle, motorcycle, car and lorry inner tubes.

Table 4-6 gives the relevant data showing the extent of import substitution for this commodity.

Imports had declined rapidly in absolute terms from 438,000 pieces in 1957 to 5,000 pieces only in 1966. This is a most remarkable decline and this fall in imports is also observed when we view it as a percentage share in total supply. The import coefficient decreased from 32.09% in 1957 to 0.22% in 1966. This is a change from slightly less than one-third of total supply, to a most insignificant and negligible percentage share.

This fall in imports in absolute and relative terms was brought about by an increasing growth rate in domestic production. As a result of this rapid expansion in production the production coefficient which had declined from 67.91% in 1957 to 50.21% in 1958 , had since then increased steadily till in 1966 it was 99.78%. Thus from about half of total supply domestic production had expanded so rapidly that from...

TABLE 4-5

RUBBER COMPOUND - IMPORT SUBSTITUTION

Year	Production 1,000 lbs.	Imports 1,000 lbs.	Total Supply lbs. (1,000)	% of Domestic Production to Total Supply	Annual % Change	% of Import To Total Supply	Annual % Change	Exports 1,000 lbs.	Domestic Absorption 1,000 lbs.
1957	2,754	67	2,821	97.62	-	2.38	-	29	2,792
1958	3,932	375	4,307	91.29	-6.33	8.71	+6.33	209	4,098
1959	3,016	1,010	4,026	74.91	-16.38	25.09	+16.38	360	3,666
1960	3,503	456	3,959	88.48	+13.57	11.52	-13.57	932	3,027
1961	3,577	175	3,752	95.33	+6.85	4.67	-6.85	1,186	2,566
1962	3,493	345	3,838	91.01	-4.32	8.99	+4.32	1,176	2,662
1963	4,021	281	4,302	93.47	+2.46	6.53	-2.46	2,452	1,840
1964	4,815	308	5,123	93.99	+0.52	6.01	-0.52	2,515	2,608
1965	4,481	335	4,816	93.04	-0.95	6.96	+0.95	2,012	2,804
1966	5,920	328	6,248	94.75	+1.71	5.25	-1.71	1,918	4,330

Source: Compiled from Monthly Statistical Bulletin of West Malaysia, June 1967.

TABLE 4-6

INNER TUBES - IMPORT SUBSTITUTION

Year	Production* (1,000 pieces)	Imports (1,000 pieces)	Total Supply (1,000 pieces)	% of Domestic Production to Total Supply	Annual % Change	% of Imports To Total Supply	Annual % Change	Exports (1,000 pieces)	Domestic Absorption (1,000 pieces)
1957	927	438	1,365	67.91	-	32.09	-	246	1,119
1958	595	590	1,185	50.21	-17.70	49.79	+17.70	279	906
1959	962	427	1,389	69.26	+19.05	30.74	-19.05	268	1,121
1960	1,238	392	1,630	75.95	+ 6.69	24.05	+ 6.69	352	1,278
1961	1,822	321	2,143	85.02	+ 9.07	14.98	- 9.07	378	1,765
1962	2,025	158	2,183	92.76	+ 7.74	7.24	- 7.74	451	1,732
1963	2,125	47	2,172	97.83	+ 5.07	2.17	- 5.07	618	1,554
1964	2,472	14	2,486	99.43	+ 1.60	0.57	- 1.60	644	1,842
1965	2,863	12	2,875	99.58	+ 0.15	0.42	- 0.15	588	2,287
1966	2,362	5	2,367	99.78	+ 0.20	0.22	- 0.20	667	1,700

Source: Compiled from Monthly Statistical Bulletin of West Malaysia. June 1967.

* Includes bicycle, tricycle, motor-cycle, car and lorry tubes.

1964 onwards import substitution had reached its practical limit for inner tubes.

The rapid growth rate of domestic production was brought about by both an increasing domestic market as well as an expanding export market. In 1966, however, except for exports which continued to increase, domestic production, imports and doemstic absorption had declined. If domestic absorption had retained the growth rate of previous years the decline in domestic production would have brought about an increase in import quantity. As it is the diminished domestic absorption had made it necessary to increase imports and even though domestic production had decreased the production coefficient had even registered a slight increase from 99.58% in 1965 to 99.78% in 1966.

In this case, there is 'real' import substitution for the production coefficient had increased and imports had been reduced to an insignificant amount. It is perceivable that exports will continue to increase, and the decline in domestic absorption in 1966 could be regarded as temporary for with the establishment of motor-vehicle, scooter and bicycle assembly plants in West Malaysia the demand for inner tubes will increase.

Rubber Tyres and Tubes.

Of all the imported rubber products of West Malaysia the largest component was that of "Rubber tyres and tubes". Table 4-7 shows the value of total imported rubber products and that of rubber tyres and tubes and the percentage of the latter to the former for the years from 1960 to 1966. It can be seen that rubber tyres and tubes form a very large percentage of total imported rubber products, however, the percentage share had decreased over the years. In 1960 the share of rubber tyres and tubes to total imported rubber products came to as much as 76.49%, but six years later, in 1966, the percentage had decreased to 55.61%.

This does not mean that rubber tyres and tubes have become less important in the West Malaysian economy. On the contrary, with rapid development of the domestic sector and the improved standard of living, passenger cars, lorries, buses, other commercial vehicles, scooters and bicycles, have become more common in West Malaysia as can be seen in Appendix 2. The fall in the value of rubber tyres and tubes in absolute terms as well as a percentage of total imported rubber products was thus caused not by a fall in the domestic absorption of such products but by the increasing domestic production of these goods. In other words, this means that import substitution had occurred. In the former section under "Inner tubes" and from Table 4-6 we had seen that this was what had happened and import coefficient had been reduced to a negligible percentage. The same must be true here. Unfortunately, the data on the local production of rubber tyres and tubes are not available, otherwise it would be possible to show that because of import substitution the import of rubber tyres and tubes had declined.

Table 4-8 indicates that since 1963 the import of cycle outer..

TABLE 4-7

VALUE OF TOTAL IMPORTED RUBBER PRODUCTS
AND RUBBER TYRES AND TUBES

Year	Total Imported Rubber Products (value $)	Imported Rubber Tyres and Tubes (value $)	% of Rubber Tyres and Tubes To Total Imports
1960	23,999,407	18,359,497	76.49
1961	25,674,774	19,620,730	76.04
1962	30,446,872	23,235,514	76.32
1963	21,036,078	14,544,757	69.14
1964	17,265,495	11,110,254	64.35
1965	13,926,140	7,207,794	51.75
1966	15,872,096	8,842,350	55.61

Source: Compiled from Monthly Statistical Bulletin of West Malaysia, June 1967.

TABLE 4-8

WEST MALAYSIA: CYCLE OUTER COVERS

Year	Production	Imports	Exports
	1,000 pieces		
1957	90	1,441	132
1958	n.a.	1,595	154
1959	n.a.	1,579	143
1960	n.a.	1,588	159
1961	n.a.	1,832	150
1962	n.a.	2,059	156
1963	n.a.	1,405	188
1964	n.a.	1,691	110
1965	n.a.	256	189
1966	n.a.	664	126

Source: Compiled from Monthly Statistical Bulletin of West Malaysia, June 1967.

n.a. - Not Available.

covers had declined. In 1957 the amount imported was 1,441,000 pieces and this had increased to 2,059,000 in 1962, however, since then the amount had declined, so that, in 1965 the import quantity was 256,000 pieces. This decline was caused by the establishment of new and modern plants producing rubber tyres, an example is that of the Dunlop Tyre Factory which started production in 1963. Thus, even though handicapped by the insufficiency of data, it is possible to conclude that there is import substitution. Although in 1966 import had shown an increase from 256,000 pieces in 1965 to 664 in 1966, this could be due to rapid increase in domestic absorption, as was the case for inner tubes.

From Table 4-8 we could see that West Malaysia had been exporting cycle outer covers since 1957 and this was not due to re-export of the imports but to the export of local production. This implies that even in the late 1950's West Malaysia was producing cycle outer covers but the growth rate being slow it was necessary to increase imports to meet the increasing local demand, until in 1963 when the growth rate of domestic demand had accelerated imports had then declined. There is therefore, 'real' import substitution but we cannot say to what degree due to the lack of data on domestic production.

Rubber Footwear

The relevant data on rubber footwear are given in Table 4-9. The products included under this broad heading of "rubber footwear" are: canvas shoes with rubber soles; slippers wholly and partly made of rubber; footwear wholly or mainly of rubber, and rubber soles and heels.

Here, as for most rubber products, domestic production occupies a very large percentage share of total supply. In this case the production coefficient in 1957 was 88.64% and by 1966 it had increased to 98.08%. As a result of this rapid growth of domestic production, imports had declined significantly both in absolute and in relative terms, so that the import coefficient had been reduced from 11.36% in 1957 to 1.92% in 1966. The large production coefficient in 1957 means that even then import substitution had occurred considerably, however, because of the expanding growth rate of the domestic industry it was possible to increase the degree of import substitution so that imports had been reduced to a greater extent.

Domestic absorption had increased rather rapidly especially since 1962 and this had acted as a stimulus to the domestic industry. Exports, on the other hand, had remained relatively stable. However, in 1966 both exports and domestic absorption had declined slightly so that even though there is a small decline in domestic production it was not necessary to increase imports. The decline in exports must be due partly to less favourable international demand for this commodity and partly the decline in domestic production. Unless the domestic and export market could be improved the domestic industry might decline further or else imports were to be further reduced.

TABLE 4-9

RUBBER FOOTWEAR - IMPORT SUBSTITUTION

Year	Production (dozen pairs)	Imports (dozen pairs)	Total Supply (dozen pairs)	% of Domestic Production to Total Supply	Annual % Change	% of Imports To Total Supply	Annual % Change	Exports (dozen pairs)	Domestic Absorption (doz. pairs)
1957	980,542	125,623	1,106,165	88.64	-	11.36	-	227,961	878,204
1958	999,124	110,337	1,109,461	90.05	+1.41	9.95	-1.41	391,701	717,760
1959	1,279,307	77,414	1,356,721	94.29	+4.24	5.71	-4.24	418,174	938,547
1960	1,509,646	91,400	1,601,046	94.29	0	5.71	0	367,431	1,233,615
1961	1,528,926	80,757	1,609,683	94.98	+0.69	5.02	-0.69	375,254	1,234,429
1962	1,492,358	35,223	1,527,581	97.69	+2.71	2.31	-2.71	321,963	1,205,618
1963	1,705,403	21,370	1,726,773	98.76	+1.07	1.24	-1.07	281,717	1,345,056
1964	1,956,631	37,510	1,994,141	98.12	-0.64	1.88	+0.64	330,243	1,663,898
1965	1,971,271	37,185	2,008,456	98.15	+0.03	1.85	-0.03	303,966	1,704,490
1966(P)	1,844,888	36,087	1,880,975	98.08	-0.07	1.92	+0.07	202,252	1,678,723

Source: Compiled from Monthly Statistical Bulletin of West Malaysia, June 1967.

(P) - Provisional.

Tubing and Hose, Part Rubber Reinforced.

The behavior of these products is quite different from any of the other commodities we had examined above. All the other rubber products had shown that over the years there was perceptible decrease and in some cases significant decline, in the importation of the particular products, and as a result production coefficient had increased or had reached a very high percentage of total supply. We shall now analyse the growth of tubing and hose which are partly reinforced by rubber and see whether there is any import substitution.

All the relevant data for these products are given in Table 4-10. Domestic production had increased, in absolute terms, from 110,000 feet in 1957 to 893,000 feet in 1966. As a result of this rapid growth the production coefficient had increased from 14.63% in 1957 to 36.33% in 1966. This is the only case analysed here where the production coefficient had been so small and even by 1966 the production coefficient was only a little more than one-third of total supply. However, assuming the growth trend were to continue, we can expect the production coefficient to increase and thus a higher degree of import substitution can be attained.

In this case, imports had increased simulataneously with the increase in domestic production. However, despite this increase in imports from 642,000 feet in 1957 to 1,565,000 feet in 1966 the corresponding import coefficient had declined from 85.37% in 1957 to 63.67% in 1966. This means that the growth rate of domestic production had been so great as to overcome the effect of the increase in imports and even brought about an increase in production coefficient.

This rapid expansion in domestic production had been mainly the result of an effort of the local industry to meet the increasing domestic absorption, which had increased from 688,000 feet to 2,277,000 feet in 1966. However, the export market had not been so favourable. From 1957 to 1960 exports had increased from 64,000 feet to 367,000 feet, respectively, but since then exports had been on the decline. The decline in exports must be due partly to the increasing domestic demand so that the quantity available for export was thus not very large, partly due to the decline in foreign demand, and partly to the small local industry (output forming only a small percentage of total supply, the highest being 36.33% in 1966).

The rapid increase in domestic absorption had resulted in the liberalization of consumption. In 1958 the absorption per capita was 0.0687 feet, however, in 1966 it was 0.2664 feet. This can be seen from Table 4-11. As a result of consumption liberalization it was necessary to increase imports despite the expansion of the domestic output in order that the domestic demand could be satisfied.

In this case, we can say that there is 'real' import substitution, for even though imports had increased simultaneously with the increase in domestic production the latter had occupied an increasing proportion...

TABLE 4-10

TUBING AND HOSE, PART RUBBER REINFORCED: IMPORT SUBSTITUTION

Year	Production (1,000 feet.)	Imports (1,000 feet.)	Total Supply (1,000 feet)	% of Domestic Production to Total Supply	Annual % Change	% of Imports To Total Supply	Annual % Change	Exports (1,000 feet)	Domestic Absorption (1,000 feet)
1957	110	642	752	14.63	-	85.37	-	64	688
1958	125	431	556	22.48	+7.85	77.52	-7.85	103	453
1959	234	581	815	28.71	+6.23	71.29	-6.23	161	654
1960	416	1,078	1,494	27.84	-0.87	72.16	+0.87	367	1,127
1961	344	1,259	1,603	21.46	-6.38	78.54	+6.38	296	1,307
1962	410	1,126	1,536	26.69	+5.23	73.31	-5.23	289	1,247
1963	378	1,639	2,017	18.74	-7.95	81.26	+7.95	221	1,796
1964	459	1,220	1,679	27.34	+8.60	72.66	-8.60	172	1,507
1965	568	1,488	2,056	27.63	+0.29	72.37	-0.29	120	1,936
1966	893	1,565	2,458	36.33	+8.70	63.67	-8.70	181	2,277

Source: Compiled from Monthly Statistical Bulletin of West Malaysia, June 1967.

TABLE 4-11

WEST MALAYSIA: PER CAPITA ABSORPTION, RUBBER PRODUCT MANUFACTURES, 1958-1966

Year	Population (1,000)	Foam Rubber Mattresses (numbers)	Absorption per capita (numbers)	Other Foam Rubber Products (lbs)	Absorption per capita (numbers)	Rubber Compound 1,000 lbs	Absorption per capita (lbs)	Inner Tubes 1,000 pieces	Absorption per capita pieces	Tubing and Hose, Part Rubber Reinforced 1,000 feet	Absorption per capita (feet)
1958	6,596	18,827	0.0029	71,438	0.0108	4,098	0.6213	906	0.1373	453	0.0687
1959	6,815	20,600	0.0030	255,678	0.0375	3,666	0.5379	1,121	0.1645	654	0.0959
1960	7,018	10,163	0.0014	515,159	0.0734	3,027	0.4313	1,278	0.1821	1,127	0.1606
1961	7,250	9,169	0.0013	834,468	0.1151	2,566	0.3539	1,765	0.2432	1,307	0.1803
1962	7,377	11,212	0.0015	1,420,482	0.1926	2,662	0.3608	1,732	0.2348	1,247	0.1690
1963	7,707	6,965	0.0009	1,709,711	0.2218	1,840	0.2387	1,554	0.2016	1,796	0.2330
1964	7,929	7,105	0.0009	1,977,843	0.2494	2,608	0.3289	1,842	0.2298	1,507	0.1901
1965	8,157	23,877	0.0029	2,456,638	0.3012	2,804	0.3437	2,287	0.2804	1,936	0.2372
1966	8,998	43,025	0.0048	2,736,585	0.3413	4,330	0.4812	1,700	0.1889	2,277	0.2531

Source: Compiled from Monthly Statistical Bulletin of West Malaysia, June 1967.

of total supply. With the liberalization of consumption we can expect the domestic industry to expand further to meet the increased demand and thus attaining a higher degree of import substitution.

Conclusion

For all the rubber products, import substitution has reached its practical limit so that it is not necessary to consider further possibility of import substitution. The only exception is tubing and hose where there is still the possibility of increasing the production coefficient and attaining greater import substitution.

The absorption of these rubber product manufactures had increased rapidly as domestic production expanded, and for products like tubing and hose, part rubber reinforced it was necessary to increase imports even though the domestic output was expanding. As can be seen from Table 4-11 the per capita absorption for most of the products shown, had increased since 1958 except for rubber compound which has shown a decrease. For foam rubber mattresses the increase in per capita absorption had been slight, from 0.0029 in 1958 to 0.0049 in 1966. However, for 'other foam rubber products' and 'tubing and hose, part rubber reinforced' the per capita absorption had increased rapidly so that for these two products there is greater evidence of consumption liberalization than in the others. The per capita absorption for 'inner tubes' has shown a tendency to increase in the long-term, even though there was a decline in 1966.

The possibility of expanding the export market has to be seriously considered for the domestic market is small and the absorption rate had been rather static for some products, for instance, rubber compound. It is also necessary to stimulate the growth of the domestic market by various fiscal and other devices, so that the domestic demand for these products will increase.

CHAPTER V

TRANSPORTATION EQUIPMENT MANUFACTURING INDUSTRIES

Continuing the growth trend of recent years under the stimulus of Government inducements and increasing domestic demand, the manufacturing sector accounted for 11% of the Gross Domestic Product of Malaysia in 1966, while the growth rate of manufacturing output was about 15%. The majority of the total industrial output of Malaysia about 70%, is in consumer and intermediate goods, mainly food and beverages, footwear, paint, printed matter, leather products, cement, tyres, chemicals, and petroleum products. The processing of agricultural products accounts for 20% of the remaining 30% while the manufacture of capital goods such as metal products, machinery and transport equipment makes up the balance.[1] ← 10%

Transportation equipment forms only portion of this 10% of a total manufactured goods of Malaysia. However, due to the fact that the manufacturing industry in Sabah and Sarawak (East Malaysia) is as yet negligible, we can safely conclude that the manufacture of transport equipment comes from West Malaysia. This small percentage of 10% of total industrial output indicates the relative insignificance of the manufacture of capital goods.

As with most countries which have embarked on an ambitious industrial programme, the first industries to be established were those producing consumer goods. The reason is that the markets in developing countries are primarily for consumer goods, and the market for capital goods is either non-existent or very negligible. The public sector appears to be the only consumer of such goods. Moreover, these heavy industries are more capital-intensive, requiring a larger amount of capital, higher and better technical knowledge and skill, all of which are deficient in developing countries. Therefore, unless there is a sufficiently large market for these products, cost of production would be very high and it would be most uneconomical to produce them domestically especially when it is much cheaper to import them. But when embarking on an industrial development programme based on the policy of import substitution sooner or later it would be necessary to establish industries producing intermediate and capital goods. Industrialization would bring about greater economic growth, standard of living and per capita income would rise, and so the demand for capital goods would increase. The domestic absorption of transportation equipment would rise because, now, more and more people would be able and would want to possess some form..

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1. Yearbook, Far Eastern Economic Review, 1968, (page not certain)

of transport equipment. This increasing demand for transport equipment has to rely practically entirely on import, until in recent years when West Malaysia has decided to establish assembly plants of some types of motor vehicles, and it is hoped that eventually, this would lead to the local production of their component parts as well.

"Relevant" demonstration effect"

Import Trend of Transport Equipment 1960-1966

At the begin of this decade the import value of transport equipment amounted to $140.6 million out of a total import value of $2,150.6 million. This comes to about 6.54%. Since then, the value had almost doubled itself in absolute terms, for in 1966 the value of import transport equipment was $256.8 million. However, this forms only about 9.76% of total imports. All these can be seen from Table 5-1 which presents the relationship between the value of total imports and that of transport equipment for West Malaysia between 1960 and 1966. As can be seen from the table, although the percentage of transport equipment to total imports is small, the percentage is increasing, indicating the upward trend and increasing importance of transport equipment imports. As domestic demand for such commodities increases due to the relatively high standard of living in West Malaysia, a per capita income level of about $950 in 1965, and the fact that domestic production of these products is as yet negligible (until in 1967 when West Malaysia started assembling some of the motor vehicles she absorbs), we can expect the import of these items to continue to increase, in the near future at least.

The commodities which are included under this heading "transport equipment" are railway vehicles, road motor vehicles, aircrafts, and ships and boats. Road motor vehicles include passenger cars, lorries, trucks, buses, road tractors, motor cycles and parts, road vehicles not motorised, for example, bicycles, parts of all these motor vehicles and other chassics with engine. Aircrafts, parts for aircrafts, and railway vehicles require highly capitalised and technical methods of production, and the relevant technical knowledge and skill to produce them. The industrial level of West Malaysia had not reached such a stage yet, she is just moving towards the production of intermediate and capital goods and, therefore, it is not possible for her to manufacture aircrafts or railway engines. Moreover, West Malaysia has not got the financial means to establish such heavy industries, and in addition, since the market for them is small, cost of production would be very high, and so it would be uneconomical to produce them. Thus, it is necessary to import them, at present and in the near future, to meet the local demand. With regard to railway vehicles, even though West Malaysia might produce the wooden framework and other parts and accessories of the trains, the essential parts, such as those for the engine, will have to depend entirely on import.

The complete absence of any data on these industries except those on imports and the production figures for parts and accessories, makes it appear almost impossible to make any generalisations on whether there is any import substitution. However, this is not so. It can be safely concluded that in the case of aircrafts and railways, there is no .....

TABLE 5-1

WEST MALAYSIA:- VALUE OF TOTAL IMPORTS AND TRANSPORT EQUIPMENT, 1960-1966

Year	Total Imports ($ million)	Import of Transport Equipment (value $)	% of Transport Equipment to Total Import	Annual % Change
1960	2150.6	140,570,517	6.54	-
1961	2,230.5	146,920,334	6.59	+0.05
1962	2,447.4	206,581,773	8.44	+1.85
1963	2,516.9	215,124,167	8.55	+0.11
1964	2,521.4	213,295,568	8.46	-0.09
1965	2,608.3	244,449,239	9.37	+0.91
1966	2,632.6	256,844,751	9.76	+0.29

Source: Compiled from States of Malaya, Monthly Statistics of External Trade, Dec. 1960-1966 (issues).

import substitution. This conclusion is based on the arguments given above and the non-existence of any industry producing either of these items or the component parts of aircrafts and railways.

Road Motor Vehicles — passenger cars

Of the four sub-groups of transport equipment, the most important one is that of the road motor vehicles. The main item of the road motor vehicles is the passenger car. Table 5-2 presents the yearly value of import for total transport equipment from 1960 to 1966, and also for road motor vehicles and passenger cars. It can be seen that out of a total of $140,570,517 spent on transport equipment in 1960, the amount spent on road motor vehicles was $118,431,528. This comes to about 84.25% of the total and shows the relative importance of road motor vehicles. In 1966, the percentage of road motor vehicles to the value of transport equipment was 89.47%, which shows the increasing proportion spent on road motor vehicles.

Passenger cars form the largest item of the road motor vehicles. In 1960 when the value of road motor vehicles was $118,431,528, that of passenger cars was $57,614,097, which came to about 48.65% of the former. This is a large proportion for a single item and it shows the relative importance of passenger cars in the domestic market. The value of the imported passenger cars has continued to increase in absolute terms over the years, but as a percentage of road motor vehicles, it had shown a declining trend. For instance, in 1964 the value of passenger cars was $84,251,999, showing an average annual increase of $6,658,975.5 over the 1960 value, and the 1966 value was $87,057,742 an average annual increase of $1,573,940.82. However, as a percentage of road motor vehicles, the percentage of passenger cars in 1964 was 43.14% and in 1966, 37.88%. All these can be seen from Table 5-2. This does not mean that the demand for passenger cars had declined for as we have seen the value of passenger cars in absolute terms had increased and, moreover, the number of cars imported had increased from 12,783 in 1960 to 19,992 in 1966. The reason for this decline in the value of passenger cars must be due to the fact that the demand for other items of road motor vehicles had increased faster than that for passenger cars.

In 1960, the number of private motor cars registered in West Malaysia was 92,217 but, by 1966 the number had increased to 169,008[2]. This is an increase, in absolute terms, of about 78,000 cars in six years, or an average annual increase of 13,00 cars. More details can be seen from Appendix 2. The rising standard of living, leading to a change in taste and preference, has caused this rapid growth in the demand for cars. Car-ownership is no longer limited to the higher income groups but it is spreading to the lower income groups too. However, this figure shows only the net increase in the number of cars and not the gross increase. It is necessary to keep in mind that some

(because of hire-purchase facilities)

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2. Monthly Statistical Bulletin of West Malaysia, March 1967 Compiled from Commissioner of Road Transport, States of Malaya.

TABLE 5-2

WEST MALAYSIA:- IMPORT VALUE OF TRANSPORT EQUIPMENT
ROAD MOTOR VEHICLES AND PASSENGER CARS, 1960-1966.

Year	(a) Transport Equipment* (value $)	(b) Road Motor Vehicles (value $)	(c) % of (b) to (a)	(d) Annual % Change	(e) Passenger Cars (Excluding Buses) (Value $)	(f) % of (e) to (b)	(g) Annual % Change
1960	140,570,517	118,431,528	84.25	-	57,614,097	48.65	-
1961	146,920,334	128,949,952	87.62	+3.37	59,240,940	45.94	-2.71
1962	206,581,773	170,145,854	82.37	-5.25	62,611,197	36.80	-9.14
1963	215,124,167	185,697,647	86.32	+3.95	79,044,180	42.57	+5.77
1964	213,295,568	195,280,402	91.55	+5.23	84,251,999	43.14	+0.57
1965	244,449.239	215,809,138	88.28	-3.27	86,215,229	39.95	-3.19
1966	256,844,751	229,795,316	89.47	+1.19	87,057,742	37.88	-2.07

Source: Compiled from States of Malaya, Monthly Statistics od External Trade, Dec. 1960-1966 (issues).

* Transport Equipment includes: Road Motor Vehicles, Railway Vehicles, Road Vehicles other than motor, Aircrafts, and ships and boats.

cars were scrapped or became obsolete and the new ones had merely displaced them and so there was no absolute increase shown.

This relatively large and growing market for motor vehicles has led to the establishment of plants assembling road motor vehicles, some of which had started operation in 1967. With the introduction of the assembly of motor cars, scooters and two-wheelers, West Malaysia is now launching into the engineering field of industrialization. Assembly is but the first stage in the production of motor vehicles, and West Malaysia follows a policy of backward integration. The assembly of passenger cars and other road vehicles will lead eventually to the creation of ancilliary plants manufacturing component parts to feed local assemblers.

At the beginning of 1966 when entrepreneurs were planning their plants, the total market in West Malaysia was running at approximately 17,000 passenger cars and 4,000 commercial vehicles a year. The market had been increasing over the preceding two or three years and this had given rise to the optimism that this growth would continue, but, this optimism had proved to be ill-founded. Instead of going up sales had dropped and the first four months' figures gave projected total sales for 1968 of only 12,519 cars and 2,973 commercial vehicles. In other words, this is about 5,500 units short of the 1966 total.[3] This slump in the sales of passenger cars and commercial vehicles since the beginning of 1967, posses the greatest threat to the motor assembly industry in West Malaysia.

The assembly of road motor vehicles in West Malaysia is but the primary effort towards the import substitution of these commodities. Due to the protection given to this industry and to the fact that the quality of locally assembled cars and commercial vehicles is as good as their imported counterparts, the output of the assembly plants has increased rapidly as the local market after overcoming the initial indecision has begun to absorb more and more locally assembled motor vehicles. It is hoped that with the passage of time, West Malaysia will be able to establish a domestic motor vehicle component parts industry to cater to the needs of the local assemblers. When that happens, it will be a bigger step taken towards import substitution of road motor vehicles and their parts and assessories, but, until that happens West Malaysia has to depend on the import of the component parts to feed the local assemblers.

The smallness of the local market has made it necessary to limit the number of assembly plants in Malaysia. At the present moment there are six motor vehicle assembly plants in West Malaysia, assembling 37 makes and covering more than 90 models.[4] These factories are being set up with a total investment of about $40 million by joint-venture ...

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3. Straits Times, June 26, 1968.

4. Straits Times, May 4, 1968.: All figures in this paragraph.

between local and foreign capital.. The break-down point for all the six approved assembly plants is established to be in the region of 14,000 passenger cars a year if ex-plant prices are to be maintained at a level that will not reflect an increase in retail price over the corresponding price of the unit imported in a built-up condition. In order to generate the desired economies of scale in the assembly of motor vehicles, (the manufacture of component parts) as well as to encourage the early establishment of a component part industry, it is desirable to limit the number of assembly plants and the number of makes to be assembled locally. The slump in the sales of passenger cars and commercial vehicles is the greatest threat to the motor assembly industry and makes it more necessary than ever to limit the number of assembly plants and the number of makes to be assembled domestically

Tariff protection and quantity restriction are definitely needed, for no local assemblers can exist profitably and economically in a market where built-up vehicles can enter freely. The importation of built-up vehicles is definitely cheaper and more economical than locally assembled motor vehicles in unprotected markets. The present protection given to the motor vehicles industry is/the form of import/in quota. For passenger cars the import quota is 50%, for light commercial vehicles the quota is 40% and for heavy commercial vehicles it is nil. In addition to these tariff quotas there is an import tariff of 35%. In view of the fact that sales of motor vehicles has shown a tendency to decline ever since 1967, it is felt that in order to encourage and protect the assembly industry it is necessary to further reduce the quotas of imported motor vehicles. The local assemblers feel that the import quota for passenger cars should be reduced from 50% to 1%, for light commercial vehicles it would be desirable to reduce the 40% quota to nil, and for heavy commercial vehicles the quota should remain nil. It is also generally felt that a 35% tariff alone is insufficient deterrent to prevent "duty jumping" by highly industrialised nations with surplus production capacity.[5]

The assembly of motor vehicles is a very recent development, for West Malaysia only started assembling her own motor vehicles in 1967. However, we can safely say that for these items import substitution has occurred for with the establishment of the domestic assmebly industry and the protection given to it, the import of built-up units would surely show a significant decline. This is further accentuated by the fact that sales had declined, for if demand had increased at a more rapid rate than the production rate of the assembly plants, imports might have to be increased.

But the domestic motor vehicle industry does not amount to the assembly of motor vehicles only. West Malaysia has an industry that produces motor vehicles bodies and parts and accessories for motor vehicles. The commodities that are produced by this industry are mainly the bodies for motor coaches and buses, bodies and frames for...

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5. Statistical data and other information from Straits Times, June 26, 1968, op.cit.

TABLE 5-3

WEST MALAYSIA:- MOTOR VEHICLE BODIES* INDUSTRY 1959-1966

Year	Number of Establishments	Net Value of Output ($1,000)	Index of Net Value of Output	Total No. of Paid Employees	Salaries and Wages Paid ($1,000)
1959	18	705	100.00	210	440
1960	18	863	122.41	264	544
1961	18	1,178	167.09	307	632
1962	42	1,738	246.52	484	1,025
1963	39	1,660	235.46	513	1,084
1964	39	1,954	277.16	519	1,214
1965	40	1,842	261.28	595	1,171
1966	40	1,998	283.40	546	1,281

Source: Compiled from Survey of Manufacturing Industries in West Malaysia, 1960-1966 issues.

* Mainly bodies for motor coaches and buses, and frames for lorries and trailers.

TABLE 5.4

WEST MALAYSIA:- MOTOR VEHICLE PARTS AND ACCESSORIES INDUSTRY, 1959-1966

Year	Number of Establishments	Net Value of Output ($ 1,000)	Index of Net Value of Output	Total No. of Paid Employees	Salaries and wages paid ($1,000)
1959	3	29	100.00	9	12
1960	3	27	93.10	10	12
1961	3	39	134.48	11	13
1962	11	253	872.41	83	107
1963	11	227	782.76	89	112
1964	12	332	1,144.83	101	153
1965	13	416	1,434.48	105	164
1966	12	350	1,206.89	103	172

Source: Compiled from Surveys of Manufacturing Industries in West Malaysia, 1960-1966 issues.

lorries and trailers, and other products such as canvas tarpaulin and, lorry and bus chassis. Such commodities do not require highly technical and complex plants or a large amount of capital to produce them.

According to the Survey of Manufacturing Industries for West Malaysia, in 1959 there were already 18 establishments in the motor vehicle bodies industry which produce a net value of output of $705,000. The number of establishments had since then increased, so that by 1966 there were 40 of them. The net value of output for that year was $1,998 thousand, an amount which almost tripled that of 1959. This rapid increase in the net value of output could be due to the larger number of establishments, or, it could be due to the greater efficiency of the establishments as a result of adopting better technique and methods of production or the employment of more skilled labour. In 1965 despite the fact that the total number of employees had increased (from 519 in 1964 to 595 in 1965) together with an increase in the number of establishments over the previous year, the net value of output had declined. Another thing is that, the salaries and wages paid to the employees had decreased from $1,214 thousand to $1,171 thousand, although the number of employees had increased from a total of 519 in 1964 to 595 in 1965. This could mean that there is an excess of labour to the available amount of capital and as a result of this the price of labour had been lowered. In 1966 when the number of paid employees had been reduced from 595 to 546 the net value of output increased to $1,998 thousand from $1,842 thousand and, despite the smaller number of employees, the salaries and wages paid to them had increased from $1,171 thousand to $1,281 thousand. The elimination of the excess labour had brought about greater efficiency in production and as a result both the net value of output and the price of labour had increased. All these and more detail can be seen from Table 5-3 which presents the relevant statistical data on the motor vehicle bodies industry.

As for the motor vehicle parts and accessories industry, the commodities produced are bolts, nuts, screws, spindles, and numerous other parts and accessories for motor vehicles. Included in this list of commodities are the bodies and frames for lorries, ten-wheeled lorries, trammels, piston compressor, gasket, bolts, nuts for fishing boats, hydraulic jacks and silencers. The number of establishments in this industry was three in 1959 but it had increased to 12 by 1966. The net value of output was $29,000 in 1959 and $350,000 in 1966. This is a rather remarkable increase. However, 1965 had the highest net value of output out of the eight years shown in Table 5-4, which is $416,000, while the number of establishments was 13 employing a total number of 105 employees, also the largest number.

Both the motor vehicle bodies and parts and accessories industries produce bodies and frames for lorries and trucks and also for buses and trailers. Parts and accessories are also being made for these motor vehicles. As a result of this increasing domestic production as seen from the increasing net value of output, the import of lorries and trucks has been affected.

TABLE 5-5

WEST MALAYSIA: IMPORT VALUE OF ROAD MOTOR VEHICLES OTHER THAN PASSENGER CARS TO THE TOTAL VALUE OF IMPORTED ROAD MOTOR VEHICLES, 1960-1966

Year	(a) Road Motor Vehicles (value $)	(b) Lorries and Trucks (value $)	(c) % of (b) to (a)	(d) Road Tractors for Tractor-Trailers (value $)	(e) % of (d) to (a)	(f) Other Chassics with Engine (value $)	(g) % of (f) to (a)	(h) Parts for Cars, Buses etc. (value $)	(i) % of (h) to (a)	(j) Motor Cycles including side-cars and parts (value $)	(k) % of (j) to (a)
1960	118,431,528	13,607,677*	11.6	n.a.	-	11,995,111	10.1	19,824,614	16.7	15,003,361	12.7
1961	128,949,952	18,638,680*	14.4	n.a.	-	11,986,555	9.3	21,396,721	16.6	16,268,171	12.6
1962	170,145,854	11,703,915	6.9	27,161,249	15.9	10,660,272	6.3	35,947,224	21.1	17,049,831	10.0
1963	185,697,647	11,928,352	6.4	16,486,790	8.9	17,080,807	9.2	38,580,209	20.8	17,817,533	9.6
1964	195,280,402	10,547,102	5.4	17,737,542	9.1	16,763,118	8.6	39,795,078	20.4	19,959,393	10.2
1965	215,809,138	9,675,966	4.5	19,878,234	9.2	20,211,845	9.4	51,686,059	23.9	22,890,167	10.6
1966	229,795,316	9,340,894	4.1	24,616,621	10.7	19,354,550	8.4	54,195,120	23.6	27,968,530	12.2

Source: Compiled from States of Malaya, Monthly Statistics of External Trade, Dec. 1960-1966 issues.

* including the import value of buses.

As can be seen from Table 5-5, the import of lorries and trucks shows a long term tendency to decline both in absolute terms and as a percentage of road motor vehicles. The 1960 and 1961 import values include the import of buses, and they are $13,607,677 and $18,638,680 respectively. These figures show that there is an increase in the import value of these commodities. From 1962 onwards statistical data exclusively on the import of lorries and trucks are available and they present a declining trend for the import of lorries and trucks. The import value of lorries and trucks was $11,703,915 in 1962 while that for 1966 was $9,340,894 or 6.9% and 4.1% of road motor vehicles, respectively. This decrease in the value of import does not indicate the declining domestic absorption of these commodities. On the contrary, lorries and trucks are an important means of transportation especially for the transportation of goods. (Refer to Appendix 2 for more details). The most logical reason for the decline in the import is that of the increasing domestic production of the bodies and frames and also parts and accessories for lorries and trucks. We can thus say that for lorries and trucks since domestic production has increased significantly while, on the other hand, the import value has shown a decline, import substitution has occurred.

Since 1960 the market for motor cycles has become increasingly important. Motor cycles are of greater usefulness than bicycles and with decreasing price making them within the reach of lower income groups, increasing availability of hire-purchase facilities, urbanization and what may be called its "demonstration effect", they tend to compete with and to displace the bicycle as a means to transportation.

In 1960 the import value of motor cycles and parts came to $15,003,361 or 12.7% of total value of road motor vehicles. This has steadily increased over the years to $27,968,530 in 1966 showing that even though the percentage has not increased, because the import of other road motor vehicles has increased too, the import of motor cycles and part has an increasing trend and implying the increasing domestic demand for motor cycles. This can be seen from Table 5-5. Expansion of sales in the last two or three years has been particularly rapid, at the rate of about 5,000 to 6,000 units per year. The 1967 import statistics may not reflect this, because of the imposition of an import quota, but it may be expected that for the next few years at least, growth in sales of motor cycles will be at least 5,000 units per year, especially after the commencement of local assembly of motor cycles.[6] The introduction of more and more smaller models of scooters, mo-peds, motorised bicycles and others, has contributed towards the rapid growth in the sale of motor cycles.

This increasing domestic demand for motor cycles leading to an upward trend in the import of this commodity, means that here is a potential possibility for import substitution. The establishment of the $1.5 million Vespa Assembly Plant at Petaling Jaya early this year

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[6] An Article by Wong Phui Nam: Bicycle Market.

indicates the beginning of the assembly of motor scooters in West Malaysia. If present sales trend were to continue we can expect more scooter assembly plants to be established to meet the local demand and this may lead to the establishment of an industry to produce the component parts and accessories to feed the local assemblers.

As the assembly of scooters has only been established so recently there is therefore no import substitution before 1967. However, with the establishment of this assembly plant and the protection given to this industry we can expect import substitution to occur in the near future especially when the scooter assembly industry has established itself and ancilliary plants are set up to manufacture the component parts.

Road tractors for tractor-trailers, other chassic with engines, and parts for cars, buses and other vehicles, are the rest of the commodities included under the heading "Road motor vehicles". Reference should be made to Table 5-5.

The import value for the item "other chassics with engine" has increased over the years from $11,995,111 in 1960 to $19,354,550 in 1966 although as a percentage of total import of road motor vehicles there is a decline because of the rapid increase in the import of other road motor vehicles. As for "Road tractors for tractor-trailers" we can expect the value to increase for, although the value of its import had declined from $27,161,249 in 1962 to $16,486,790 in 1963, since 1963 the import value had shown a steady increase not only in absolute terms but as a percentage of total road motor vehicles too. Even before the establishment of the assembly industry in West Malaysia, the import of parts for cars, buses and other motor vehicles has shown an increasing trend. In 1960 the value of import was $19,824,614 and in 1966 the value has increased to $54,195,720 or 16.7% and 23.6% respectively. With the establishment of the motor vehicles industry in West Malaysia, we can expect the import of built-up passenger cars, commercial vehicles, and scooters to be reduced significantly especially since there is an import quota and a tariff imposed on these commodities. However, the import of component parts for cars, buses and other motor vehicles can be expected to increase rapidly at least for the next few years, until West Malaysia has established a domestic component parts industry to feed local assemblers. Only when that has happened will there be any import substitution for motor vehicle parts.

Road Vehicles other than Motor

The commodities produced by the domestic industry for non-motorised motor vehicles are bicycle, tricycle and trishaw parts and accessories. It is interesting to note that West Malaysia, until very recently, has no industry producing the complete bicycle, which had to be imported. What the domestic industry produces are rather the parts for these transport vehicles like bicycle carriers, bicycle stands, bicycle handles, fork guards, bicycle seats, bars, reflectors, tricycles, plastic..

holders, plastic "L" plates, refrigerator shelves, wire mesh and welding equipment.

In 1959 there were 7 establishments producing a total net value of output of $117 thousand. However, in 1966 the number of establishments had increased to eleven and the net value of output was $338 thousand. Of the 8 years presented in Table 5-6, the highest net value of output was for 1960 when it was $458 thousand and the number of establishments was nine. Despite the decrease of the net value of output to only $215 thousand in 1962 with eleven establishments the net value of output had increased steadily since then so that although the number of establishments had reamined the same the net value had increased to $338 thousand by 1966.

The import value of road vehicles other than motor had remained rather steady. In 1960 the value of imported non-motorised road vehicles was $16,252,785, but this had decreased to $10,052,166 in 1961 and since then had reamined almost constant. Incidentally 1960 happens to be the year when the net value of output for the domestic industry was at its highest, $458 thousand. The significant fall in the import of these commodities in 1961 could not be due to the rapid expansion of the domestic industry for in that year the net value of output had fallen too. Since 1963 production had increased but the growth rate had not been so great as to cause import value to reamin constant, and even to show signs of declining in the near future. The main reason for this is the rather static domestic demand for bicycles as a result of keen competition from scooters and motor cycles.

In 1960 and earlier, bicycles used to be an important means of transport especially for the lower income groups. This explains the high import value for road vehicles that are not motorised. Since 1960, because of technological progress and a rising standard of living the motor cycle had became an important means of transport and is slowly replacing the market for bicycles. The decreasing price of the motor cycle and its greater usefulness all contributed towards the increasing sales of the motor cycle, and thus there is a decline in the sales of bicycles which in recent years has been rather sharp. The increasing spread of car ownership among the lower income groups had helped to bring about a slump in thesales of bicylces. The most affected are the British Raleigh bicycles which are the most expensive of all the imported bicycles, for, the usual initial down payment of a small or second-hand motor cycle is almost equivalent to the selling price of the British bicycles.[7]

At the beginning of 1968 a plant was being establsihed in West Malaysia to manufacture bicycles for the local market. This plant, the Raliegh Cycle Malaysia, Sendirian Berhad is the first of its kind to be set up and it will only commence production before the end of the year. The domestic production of bicycles will bring about a decline in the import of road vehicles other than motor. One reason is that the domestic market is declining so that when domestic production had started imports would definitely decline unless West Malaysia exports the domestically produced bicycles. Moreover, to protect the domestic...

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7 Wong Phui Nam, op.cit.

TABLE 5-6

WEST MALAYSIA:- ROAD VEHICLES OTHER THAN MOTOR, IMPORT SUBSTITUTION, 1959-1966

Year	Domestic Production		Import: Road Vehicles other than Motor (value $)	Total Supply (Value $)	% of Domestic Production to Total Supply	Annual % Change	% of Imports to Total Supply	Annual % Change
	Number of Establishments	Net Value of Output ($1,000)						
1959	7	117	-	-	-	-	-	-
1960	9	458	16,252,785	16,710,785	2.74	-	97.26	-
1961	9	288	10,052,166	10,340,166	2.79	+0.05	97.21	-0.05
1962	11	215	10,239,680	10,454,680	2.06	-0.73	97.94	+0.73
1963	10	238	10,399,142	10,637,142	2.24	+0.18	97.76	-0.18
1964	10	261	9,687,049	9,948,049	2.62	+0.38	97.38	-0.38
1965	10	303	11,819,086	12,122,086	2.50	-0.12	97.50	+0.12
1966	11	338	9,082,087	9,420,087	3.59	+1.09	96.41	-1.09

Source: Compiled from Survey of Manufacturing Industries in West Malaysia, and States of Malaya, Monthly Statistics of External Trade, Dec. 1960-1966 issues.

industry and to encourage its growth it would be necessary to impose quotas on the import of bicycles especially the relatively cheaper type such as the Japanese and Singapore-produced bicycles.(The Chinese-made bicycles are banned from entering West Malaysia). If import substitution were to occur, it is necessary that the cost of production and, hence the price of bicycles domestically produced should be low so that they can not only compete with the cheap Japanese and Singapore bicycles, which may still enter the market and compete with the local ones despite the imposition of an import quota or a tariff, but, also to compete with the motor-cycles and to maintain their share in the domestic market.

After 1968 we can expect locally produced bicycles to displace the imported ones, but, since sales is declining it is necessary to develop the export market at the same time as the domestic market is being expanded in order to provide an outlet for the bicycles.

Ship Building and Repairing and Boat Building and Repairing Industries

It is difficult to say what are the commodities that are produced by this industry. However, since West Malaysia's shipping industry is not large, we can say that the output of this industry does not include ocean liners and large ships, but rather consists of such commodities as motor boats and launches and also the frames, bodies parts and accessories for ships and boats. These establishments also undertake ship and boat repairing. As a result West Malaysia has to import steam and motor vessels, and such floating items as buoys, beacons, floating cranes and docks.

From Table 5-7 one can see that the net value of output of the domestic industry is rather large, so also the production coefficient. The increase in the production coefficient from 70.76% in 1960 to 78.28% in 1966 means that there is import substitution and even though the percentage has fluctuated over the years there is an increasing trend.

Imports on the other hand had been rather stable except for 1962 and 1963 when the value of imports had shown considerable increase and as a result the import coefficient had increased. However, there is a long term tendency for the import coefficient to decline and this is a favourable sign that import substitution is increasing.

Conclusion

West Malaysia's transport equipment industry is still in its infancy and as a result only the initial movements have been made in the direction of import substitution. For most of the transport equipment much has to be depended on imports to meet domestic demand which though small has expanded as the standard of living increases.

With regard to aircrafts, railway vehicles and certain types of ships, import will continue to increase and there is no import substitution, as it is not possible or economical to set up the plants to manufacture them. Only in the case of lorries and trucks is there ..

TABLE 5-7

WEST MALAYSIA: SHIPBUILDING AND REPAIRING AND BOAT BUILDING AND REPAIRING 1960-1966

IMPORT SUBSTITUTION

Year	Domestic Production		Imports: Ships, Boats and Others* (value$)	Total Supply	Production Coefficient (%)	Annual % Change	Import Coefficient (%)	Annual % Change
	Number of Establishments	Net Value of Output						
1959	6	1,701	-	-	-	-	-	-
1960	6	1,821	752,317	2,573,317	70.76	-	29.24	-
1961	7	2,067	441,164	2,508,164	82.41	+11.65	17.59	-11.65
1962	25	3,786	2,779,268	6,565,268	57.67	-24.74	42.33	+24.74
1963	25	3,458	5,184,993	8,642,993	40.01	-17.66	59.99	+17.66
1964	26	2,712	415,747	3,127,747	86.71	+46.70	13.29	-46.70
1965	26	3,516	514,216	4,030,216	87.24	+0.53	12.76	+ 0.53
1966	25	3,123	866,242	3,989,242	78.28	- 8.96	21.72	+ 8.96

Source: Compiled from Survey of Manufacturing Industries in West Malaysia, 1960-1966 issues, and from States of Malaya, Monthly Statistics of External Trade, Dec. 1960-1966 issues.

* Others include: buoys, beacons, floating cranes and docks, and other floating items.

any substantial decline in imports for the domestic production of bodies and frames for lorries and trailers has increased. This decline in imports accompanied by an increase in domestic production is a good indicator that import substitution has occurred for these products.

In 1967 and 1968 West Malaysia established the first plants to assemble passenger cars, commercial vehicles, scooters and bicycles Assembly is but the first stage in the progressive manufacture of component parts of these vehicles, protection will have to be given to this industry to encourage and promote its growth and, as a result we can expect the import of these commodities to decline in the near future. However, import substitution will only occur in the case of the built-up transport vehicles, but, for component parts of transport equipment the import quantity and value will for some time increase rapidly until West Malaysia has set up a domestic ancilliary industry to manufacture these component parts to feed the local assemblers. The early establishment of such an industry will depend largely on the favourable domestic demand for transport equipment and on the protection policies of the government. If sales have a tendency to decline in the long run, which is the greatest threat to the motor assembly industry in West Malaysia, and if the protection given are not sufficient to keep out the relatively cheap units imported in a built-up condition then entrepreneurs would be hesitant about setting up an ancilliary industry.

Import substitution has only occurred in a very small degree for transport equipment. Much more can be expected in the future after the newly-established assembly plants have established themselves and have secured the domestic market with the aid of import quotas and tariffs.

The establishment of the assembly plants has led to an increase in the number of people employed in the transport equipment manufacturing industry. This demand for technically qualified workmen will increase, thus adding to the skills of the nation and act as a stepping stone to the creation of ancilliary industries.

CHAPTER VI

CONCLUSION

Critique of Policy

Industrialization has long been regarded by the Malaysian Government as one of the main avenues of diversifying the Malaysian economy in the long run. However, despite the fact that the government recognises the great potential of industrialization as a means of generating and maintaining a high rate of national income and employment growth, it is not the government's aim to replace agriculture entirely by industrialization. Agriculture has been and still is the predominant sector of the economy, but, agricultural activity alone will not be able to generate and maintain the required economic growth, especially since the prices of the main foreign exchange earners, rubber and tin, are very unstable, natural rubber prices are declining and known tin fields depleting. Industrialization would be a most useful and important supplement to the economy. As a result, lately the government has made greater emphasis on the establishment of manufacturing in order to relieve the unemployment situation, to save scarce foreign exchange, to diversify the economy and to broaden the economic base.

Since independence in 1957, the Government has embarked on a conscious policy of industrialization in West Malaysia. This policy is based on free private enterprise and as a result the government does not set up public corporations as was done in a few countries, for example, Japan, Turkey, Philippines and Pakistan. What the Malaysian Government does is to provide the necessary infrastructure and incentives that will create a favourable investment climate, for private industry especially for foreign private enterprise.

In the late 1950's and the early part of this decade much emphasis was laid on private entrepreneurs and especially on foreign private enterprise because local investors were few and most of them were more interested in the profitable rubber and tin business. However, foreign entrepreneurs will only invest here if it is profitable for them to do so and if they are protected from unfair competition from without. As a result, an attractive scheme of incentives has been offered to potential investors in the form of income tax relief of between two to five years for "pioneer" industries, provision of tariff protection to deserving local industries, the granting of exemption of import duties on the import of machinery for manufacturing pruposes and certain raw materials required in the production of these industries. Further incentives given to foreign capital is the provision for unrestricted repatriation of capital and remittance of profits and dividends .....

within the Sterling Area and with nominal control on capital movements and profit remittances to countries outside the Sterling Area. Moreover, industrial estates fully equipped with basic facilities are available to investors. As a result, within ten years of independence West Malaysia has progressed rather considerably in the industrial sector.

It is true that foreign entrepreneurs bring into West Malaysia, financial and technical resources, both of which are scarce here, and they are essential for rapid industrial growth. However, by allowing free repatriation of capital and remittance of profits to foreign shareholders there is an outflow of capital. It would have been better if a certain percentage of the profits were required to be reinvested in West Malaysia.

Moreover, although the standard of living of West Malaysia is relatively high in this area, the impressive average per capita income of about $950 conceals great divergences. There exist widespread inequality in the distribution of income especially between the urban and the rural people and also inequality in the distribution of wealth. The gap between the high income groups and the low income groups is the more pronounced considering the fact that a large proportion of the people live in the rural areas. Industrialization will tend to benefit those in the urban areas, and a policy of industrialization through private enterprise will increase the economic power of the industrial entrepreneurs, investment capitalists and the workers in the manufacturing industries.

All these would have the tendency to further widen this gap between the urban and the rural people but for the fact that the Government has undertaken a rather comprehensive rural development programme so as to raise the income level of the rural people and thus to a certain extent reduce the inequality in income distribution. In the Second Five Year Plan 1961-1965 and in the First Malaysia Plan 1966-1970 allocations of public development expenditure for Agriculture and Rural Development are $411.1 million and $900.2 million respecitvely; while the allocations for Industrial Developments are $59.1 million and $110.3 million,[1] respectively. As a percentage of total public development expenditure that of Agriculture and Rural Development has increased from 15.50% in the Second Five Year Plan 1960-1965 to 24.24% in the First Malaysia Plan 1966-1970; while Industrial Development as a percentage of total public development expenditure has merely increased from 2.23% in the 1960-1965 Plan to 2.97% in the First Malaysia Plan. From this it is clear that higher priority has been given to agriculture and rural development than to industrial development because it is the aim of the Government to provide more opportunities to the low-income groups who are mainly involved in agriculture and to improve their economic levels and social well-being.

Furthermore, the low priority given to industrial development is in conformity with the government's policy of leaving the operations

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1. First Malaysia Plan 1966-1970, Table 4-1, page 69-70.

of the manufacturing sector to private enterprise with the Government providing incentives and assistance to them. Thus, during the Second Five Year Plan period much was devoted to the development of the infrastructure rather than to industrial development for the existence of well-developed infrastructure services is a pre-requisite for rapid economic development. A sum of $588.5 million out of a total of $2,651.7 million was spent on transport services. This comes to about 22.19% of the total public expenditure budget for the plan period. As a result of this heavy investment in the Second Five Year Plan period, it is not necessary to allocate such a large portion in the First Malaysia Plan 1966-1970, the amount being $365.3 million out of $3,713.6 million[2], or a mere 9.84% of the total.

It is difficult to see how any country can expect to industrialise without any substantial tariff protection and other means of keeping foreign products out. Apart from providing a general economic framework conducive to industrialization and by providing incentives governments may promote industrial development without direct participation that is, establishing public corporations, by means of protection. Protection is justified on the basis of the "infant industry" argument.[3] In West Malaysia where brand-consciousness is extraordinarily high even today, due to inferior imitations and a certain amount of adulterations in the past, unless there is substantial protective wall of tariffs and import licensing as in many underdeveloped - but developing - countries of this region, the domestic industries will not be able to compete effectively with the already well-established competitors and as a result the manufacturing sector will not grow as rapidly as is desired. Tariffs are even more necessary if foreign private entrepreneurs are expected to do much of the industrialising, at least in the beginning, for, unless there are definite benefits and gains to be reaped, foreign investors will not take the trouble and go to the expense of setting up relatively small plants for the relatively small domestic markets when they can serve the market just as well and more profitably from outside with already well-established plants, long-run of production, well-organised supplies of raw materials and excellent ancilliary facilities.[4] Unless they are certain of the domestic market and unfair competition from outside is being excluded by means of high tariffs and, if necessary, out-right prohibitions, they will not establish themselves here.

Historically, tariff was a means of collecting revenue for the Government in West Malaysia, and was imposed on the import of opium, liquor, petroleum and tobacco. Even at the beginning of this decade it was observed that in the states of Malaya more than 80% of total duty...

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2. First Malaysia Plan, Ibid. page 69-70

3. Economic Development and Planning in Asia and The Far East, United Nations, Industrialization, page 1.

4. Wheelwright, E.L. "Reflections on some Problems of Industrial Development in Malaya" in Malayan Economic Review, Vol. VIII No.1 1963, page 66-80.

revenue was derived from levies on six products which are: liquor, petroleum, tobacco, motor vehicles, sugar and textiles. For most imports into the States of Malaya, there was no conflict between the revenue and the protective attribute of duties since duties were not levied.[5] However, before 1959, the tariff structure was clearly designed to allow most imports from the British Commonwealth countries to enter completely free of duty under the preferential system, for tariffs between 10 to 25% on the average were imposed on imports from non-British Commonwealth nations.[6] Under this system the West Malaysian market was thus originally a preserve for Commonwealth products, especially British manufactures, and it is not surprising that local manufacturing industry was weak and largely confined to areas of "natural" protection. In 1959 when major changes were made in the Federation (that is, West Malaysia) tariff structure, they merely eliminated the British Commonwealth preferences by bringing the preferential rate up to the full rate. As Wheelwright has pointed out, "the existing tariffs are not high, with few exceptions; they are rarely above 25% where they exist and the average level is 15 to 25%, but the tariff is only partial, for on the greater part of metal manufactures and a large part of equipment there is no tariff at all."[7] The Government has declared that it will protect efficient local industries and thus we can expect the tariffs to rise when the products are being manufactured domestically. The Malaysian Tariff Advisory Board was established in 1963 and since then protective tariffs have been declared on more than 214 items.[8] But on many items it is still clearly only a revenue tariff which is what it has been traditionally. There is much scope for raising the tariffs to a higher level for the present ones are rarely above 25% and thus are not high according to international standard and certainly not high enough to offset the marginal cost pricing of large foreign suppliers operating long runs of production.

One danger of a policy of protection is that by shutting out foreign competition the pressure exerted on domestic industries to improve their quality and standard is thus reduced. Moreover, it is often said that industrialization raises the cost of living. This is so because the cost of domestically produced goods is high as a result of inefficiency due to the absence of economies of large scale production and also of external economies. The prices of imports are high because of the imposition of the tariff in order to make imports relatively expensive so that the consumption of domestically produced commodities is encouraged. Does industrialization mean that consumers have to pay more for the same products since production is undertaken at home than previously when they had to rely solely on imports? However, it is necessary to look at

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5. Wheelwright, E.L., "Industrialization In Malaya" in T.H. Silcock and E.K. Fisk (eds.) "The Political Economy of Independent Malaya" Australian National University, Canberra, 1963, page 231.

6. Ibid, page 90. 7. Ibid, page 91.

8. First Malaysia Plan op.cit. page 132.

the wider aspects of industrialization such as the greater income and employment growth and thus the greater economic development of the country. Moreover, it is often assumed that protection is only given for a limited period and that the industry concerned will be able to do without such support when the initial difficulties are over. In West Malaysia the Government is intent on ensuring that no more protection than is necessary is accorded, for the cost of industrialization to the domestic consumer must be minimised, and thus, tariff protection will only be given for as long as is necessary.

Regional Cooperation.

In the field of industrialization West Malaysia has started off by producing for the domestic market. However, the Government soon realised that the policy of industrialization has to be more viable than to merely produce to satisfy domestic consumption and thus replacing imports. It is thus planned that in the long run production of the industrial sector will be extended to supply not only the domestic but also market overseas. Growth of some of these industries being so rapid, for instance, the manufacture of rubber products, cement and foodstuffs, and the market being relatively small that soon there is not only a significant decline in imports but West Malaysia has even started to export them, so that the question of developing export market is very real and comes sooner than expected.

The Government's hope of expanding the domestic market by establishing a Common Market after the formation of Malaysia, was dimmed when Singapore was separated from Malaysia in 1965. Now, the Government hopes that there will be greater regional cooperation and economic expansion through such bodies as the Association of South East Asian Nations (ASEAN) and the Association of South-East Asia (ASA). Malaysia is a member country of both ASA and ASEAN. These two regional associations will offer greater possibility to expand industrial development in the member nations by means of equitable sharing in the location of industries, so that these industries will enjoy greater economies of large scale production, and a larger market for the products of these industries as they will gain access to the markets of member nations. Greater regional cooperation should be encouraged for, through a system of joint financing a larger amount of financial capital will be available for investment and the profits from these joint ventures could be divided among the member countries. Tariffs and quotas in the member nations could be reduced, that is, the products of these countries could get preferential treatment in one another's market. If Asean or any other forms of regional cooperation could help being about a larger market for manufactured goods it will provide a big boost to industries in these countries.

Extent of Import Substitution achieved.

As we have seen from the analysis above, import substitution has occurred and has reached the practical limits for most of the rubber product manufactures. For some, such as rubber mattresses and other foam rubber products this level of import substitution has been reached even as early as 1958 and 1959. In the case of rubber compound, inner...

tubes and rubber footwear the growth of the domestic industry was so rapid that this high degree of import substitution has soon been reached. As for tubing and hose though the production coefficient is still small, it is very possible that very soon a much higher level of import substitution would be attained if the rapid growth rate of the domestic industry were to continue.

The transport equipment manufacturing industry is too new and as yet only the initial stages have been undertaken, /that it is /so difficult to state definitely about the extent of import substitution. However, if greater aid from the government in the form of lower import quotas and higher tariffs, is forthcoming, higher domestic demand could be expected and greater import substitution would be attained. The establishment of an ancilliary industry in the near future, to cater to the needs of these assembly plants will facilitate the expansion of the transport equipment manufacturing industry and thus a still greater extent of import substitution can be expected.

Lately, however, more emphasis is placed on production for the export market as well. This is partly because, as we have seen in the case of rubber product manufactures, the domestic market is too small and not as attractive as the international one; partly because Malaysia needs all the foreign exchange it can get; and partly in recognition of the success local industries have already achieved in selling abroad.9

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9. Chang, W.K. "Industrial Base Is Being Laid" in Ten Years of Merdeka, a Straits Times Publication, Aug. 1967, page 36.

APPENDIX 1

COMPOSITION OF IMPORTS, WEST MALAYSIA, YEARLY STATISTICS 1957-1965

Section \ Year	1957	1958	1959	1960	1961	1962	1963	1964	1965
					(value in $ million)				
0. Food	528.6	525.8	510.2	558.1	564.2	562.7	656.9	695.2	613.9
1. Beverages and Tobacco	88.5	88.1	80.3	82.3	88.2	71.8	60.8	57.5	60.1
2. Crude Materials, Inedible Except Fuel	207.8	182.7	210.7	339.3	282.9	339.7	292.3	227.8	229.4
3. Mineral Fuels	150.2	134.2	128.9	149.2	142.7	151.2	152.7	167.3	174.2
4. Animal and Vegetable Oils	9.6	10.0	12.8	13.1	13.5	13.6	11.7	12.4	14.8
5. Chemicals	111.9	105.5	119.5	143.2	158.7	152.5	168.1	177.0	208.3
6. Manufactured Goods	320.1	260.0	289.3	366.2	395.5	471.9	469.3	464.7	510.2
7. Machinery and Transport Equipment	218.0	202.1	209.6	283.5	337.2	394.4	433.6	436.6	486.1
8. Miscellaneous Manufactured Goods	152.8	135.0	145.1	168.7	192.4	201.6	204.5	203.0	216.6
9. Others	26.9	22.1	32.8	46.9	55.0	87.7	67.0	79.3	94.1
TOTAL	1,1814.4	1,657.5	1,739.3	2,150.6	2,230.5	2,447.4	2,516.9	2,521.4	2,608.3

Source: Dr. Lim Chong Yah "West Malaysian External Trade 1947-1965", Research Paper for AID/ Wisconsin University Research Project Conference on "Economic Interpendence in South-East Asia" held in Bangkok, Jan. 1967, Appendix 4.

APPENDIX 2

MOTOR VEHICLES REGISTERED (1), STATES OF MALAYA

Period	Private Motor Cycles	Private Motor Cars	Buses	Taxis	Hire and Drive Motor-cars	Lorries and Vans	Road Rollers Trailers etc.	Total Number of Vehicles Registered.
1954	18,125	49,159	2,069	3,363	n.a.	17,948	3,371	94,035
1955	17,999	53,545	2,113	3,172	299	19,179	4,262	100,577
1956	19,496	62,213	2,292	3,356	265	21,308	5,022	113,956
1957	23,359	69,138	2,401	3,507	212	23,115	5,745	127,485
1958	26,892	74,539	2,436	3,657	169	24,555	5,292	138,546
1959	32,714	80,586	2,519	4,013	124	26,323	7,094	153,377
1960	49,056	92,217	2,722	4,252	119	28,922	8,189	185,477
1961	68,296	103,149	2,908	4,337	49	31,083	9,588	219,410
1962	88,207	112,843	3,125	4,671	36	33,645	10,733	253,260
1963	112,086	124,651	3,332	5,036	37	35,637	12,235	293,014
1964	142,746	139,049	3,543	5,092	43	38,449	13,469	342,391
1965	175,842	154,277	3,763	5,240	61	41,854	14,081	395,118
1966	214,691	169,008	3,967	5,393	50	44,411	14,482	452,002

(1) The figures include both vehicles using petrol and diesel, but exclude service vehicles. All figures are the number of vehicles on the register at the end of the period shown. It also includes vehicles not registered for twelve months or more.

Source: Commissioner of Road Transport, States of Malaya.

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